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FOREIGN AFFAIRS

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GERMAN TRADE AND GERMAN DEBTS

By Hjalmar Schacht

THE foreigner who wishes to understand Germany's present situation must first of all remember the disasters which have overtaken the German people during the last twenty years. For four and a half years Germany waged war against almost the entire world, and in the end lost. The sacrifices in manpower and materials which this war demanded were terrific. These sacrifices Germany had to bear alone; she did not, like the victorious nations, receive any partial compensation.

The Versailles *Diktat* tore away portions of Germany's land and people which were of vital importance to her existence — West Prussia, Posen, Danzig, Memel, Upper Silesia, Alsace-Lorraine, Eupen-Malmedy, North Schleswig. She was deprived of all her colonies, whose finances were in a satisfactory condition at the beginning of the war, and which were not only an important source of raw materials but also offered an increasing outlet for exports. All German private capital invested abroad was stolen, thereby depriving us of one of the most important sources of revenue from which we had formerly maintained our balance of payments. To these losses must be added the monstrous deliveries of materials which Germany had to make after the war: machinery, coal, railroad equipment, cattle, chemical products, etc. We had to surrender almost the entire German merchant marine. Finally, under the name of "reparations," cash payments for war damages were imposed in excess of anything ever heard of before.

In reparations alone Germany paid $12,000,000,000 up to the end of the Ruhr struggle, and a further $4,000,000,000 after the Dawes Plan came into effect. For the costs of occupation, the destruction of industrial plants, etc., she had to produce $2,000,000,000. Confiscated private property abroad amounted to $4,000,-

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000,000. The lost colonies represented a value of between $32,-000,000,000 and $40,000,000,000. In addition to all this, Germany had her own war costs, some $60,000,000,000 in round numbers.

Almost more hard to bear than these material losses was the Versailles *Diktat's* moral discrimination against Germany, which in many respects last up to the present day. After being solemnly promised, Wilson's Fourteen Points were disgracefully violated. Germany alone, contrary to all historic truth, has been held responsible for the war. The theft of our colonies has been justified by the charge that we are morally unfitted for colonial activity, although all expert foreign opinion accorded German colonial policy the highest praise. The right of self-determination in Upper Silesia, Memel, and Eupen-Malmedy, granted in the dictated Versailles settlement, has been disregarded. Worst of all, the promise of disarmament has been meanly broken, and an attempt has been made to keep Germany defenseless, the while her neighbors not only do not reduce their armaments but have been continuously increasing them.

In the circumstances, how can anybody be surprised that Germany has lost all confidence in the justice of a world opinion dominated by the victorious Powers? How can anybody still be surprised that Germany should concentrate all her energies on regaining that position which, as one of the oldest and greatest of civilized nations, she has occupied through more than a thousand years of history? Is it not a blessing for the entire world that the present German Government, desirous only of peace, has restored domestic national unity, and has thrown itself into the struggle against bolshevism and unemployment with unheard of energy and absolutely astounding success?

What weighs most heavily on the international economic relations of Germany today is the after-effects of the reparations policy. Not only was Germany compelled to surrender all the movable property in her possession, but in addition, owing to the compulsion of reparations payments, she had to contract a foreign commercial debt which is out of all reasonable proportions. In the space of seven years, from 1924 to 1930, Germany contracted a foreign debt of some $10,000,000,000, at an average interest rate of six percent. This is an obligation which approximates to the highest point of foreign indebtedness contracted by the United States of America in the course of its development during decades. But the United States is, or was, the country par excellence of

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raw materials, and developed its raw material resources with foreign money; whereas Germany is a highly advanced manufacturing country, and is and was completely supplied with ample industrial machinery.

It is absolutely right that the socialist governments which ruled Germany before the advent of the Hitler régime should be made to share in the guilt for this course of events. But they acted under political pressure from the victorious Powers; whereas those foreign interests which encouraged the granting of these credits to Germany have no excuse to offer. Of the amount realized by Germany out of the $10,000,000,000 borrowed, approximately half was used in reparations payments to the victorious governments, while only half remained for investment in Germany. Now it is extremely interesting to note that, in the crisis of 1931, when demands were received for repayment of Germany's outstanding foreign debts, Germany was in a position to pay back in foreign valuta, within three years, the entire amount which had been placed in German investments. But the problem before us today is this: It is impossible to repay in a similar manner those sums which were once transferred for reparations payments. Apart from the German people themselves, those who will now have to suffer are the foreign credit institutions and capitalists who acquired German loans, although not half the net proceeds of the entire foreign indebtedness of Germany has gone into Germany's pockets, but into the pockets of the victorious governments.

The situation appears in a very crude light when note is taken of the fact that the indebted Allied Governments fulfilled their own obligations to the United States only so long as they received the money for that purpose from Germany — and stopped their payments when Germany's transfer payments ceased. Let it be remembered that Germany had to surrender her total foreign possessions, but that England today has still some $19,000,000,000 in foreign investments and France some $8,000,000,000. The effect upon the German people is absolutely grotesque when they constantly read in the foreign press that Germany is a bad debtor, while England and France, though they have no transfer difficulties whatever, still do not pay.

Although Germany finds herself confronted by all these injustices, she has never abandoned the point of view that private investors who bought German loans or otherwise furnished Germany with credits have a full right to the payment of their claims.

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They gave these credits in good faith and their demands are private, that is, private property. Germany, unlike the "victor nations," has always been at one with the United States in believing that damage to the rights of private property is the basis of bolshevism.

Germany will meet her obligations, but is not in a position to do so at the moment. The problem — and it does not confront Germany alone, but concerns all Germany's creditors and their governments — consists in how to restore Germany's capacity to pay. I need not here again go into the economic principles which have long since been recognized by all experts, that a debtor country can pay only when it has earned a surplus in its balance of trade, and that the attack on German exports by means of tariffs, quotas, boycotts, etc., achieves the opposite result. Whoever boycotts Germany is preventing the payment of German coupons.

The present position of Germany has become so acute that the country is stripped of all gold and exchange reserves, and is obliged to reduce her own imports. Possibly the rest of the world is not interested. Possibly a people of seventy millions in the heart of Europe, with a high standard of living and a powerful demand for raw materials, must withdraw from the commerce of the world. So much economic nonsense has already been caused through politics that this folly may also be perpetrated. One thing, however, must be stated. Those politicians who think they can change the domestic evolution of Germany by exploiting her economic difficulties are indulging in a colossal fallacy. When the American people in their War of Independence declared for a new, progressive conception of life as against that of dusty Europe, it was the great King of Prussia who first proved his sympathy for the American movement in word and deed. It seems to me unworthy of the American people to oppose the new *Weltanschauung* which has been built up in Germany today, the more so as this new conception of life rests upon the noblest human sentiments: fidelity to duty, national unity without differences of class, contempt for all privileges of birth, rank and position, but recognition of all personal achievement. This conception of life cannot be altered by reason of any possible material disadvantages.

Through unparalleled sacrifices on the part of all classes we have succeeded in finding useful employment for nearly two-thirds of Germany's unemployed. Disorder and tyranny are being

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stamped out with iron discipline. True, every revolution — and therefore Germany's — has elements of dross and makes mistakes; but it is precisely the recent events in Germany which have proved that the Government can firmly control these elements and correct these mistakes.

If international politics continue along the route they have been going, I can see no hope of a settlement of the German debt problem. But if a policy were adopted whose aims were the restoration of world trade, the elimination of unemployment, and social stability in all countries, then I should like to make a positive proposal.

The debt problem has been the cause, not only in Germany but in a whole series of other countries, of the present stagnation of international commerce, of unemployment, and of the social unrest which is permeating the entire world and which will put all governments to a hard test this coming winter. On principle, any proposal would have to assume that the debt problem can only be solved either by increasing exports or by cancelling the debts. In practice, however, a middle way must be found. In order to increase exports, the first and most urgent condition is that freer trade and free monetary exchange be restored. Further, short-term credits must be maintained, in so far as they help to finance the international exchange of goods; and in proportion to the increase of that exchange they should be extended as necessary. On the other hand, the settlement of long-term debts must wait. They must be put on the ice for a while, until world trade has so far recovered as to make it possible to pay the interest and settle them.

It will be necessary, then, to declare a moratorium for a few years for long-term creditors. Moreover, in view of the structural change in world trade and the decline in prices, it seems scarcely likely that after the moratorium interest payments could be again raised to their former level, especially if the interest accumulating during the period of the moratorium were added in full to the capital. It would be to the advantage both of the creditor and the debtor, therefore, to keep the interest which accumulates during the moratorium at as low a figure as possible. Furthermore, the resumption of interest payments after the moratorium would be facilitated if the existing foreign debts could be converted, under reasonable conditions which effectively promoted the great objective of restoring the world's economic relations.

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THE DAWES AND YOUNG LOANS: THEN AND NOW

By George P. Auld

THE German Government on June 14 declared the discontinuance from July 1 until further notice of all payments in foreign currencies on its foreign market debt, the major issues of which are known as the Dawes and the Young bonds. This important declaration followed an announcement by the Reichsbank that for a period of six months the Bank would be unable to provide any more foreign exchange for the transfer of service on German long and intermediate term obligations of any kind. The Reichsbank pronouncement brought to a definite close the negotiations which foreign committees had been carrying on at Berlin on behalf of the holders of German bonds other than those of the Reich. The declaration by the Government brought into serious question the integrity of the external market obligations of the Reich itself — a matter of far greater importance in principle even though substantially less significant in amount involved.

Strong protests against the unilateral action of the German Government in suspending transfers on the Dawes and the Young loans were promptly lodged by the trustees of the two issues, by the bankers who had sponsored the sale of the American participations therein, and by the interested governments, including that of Great Britain, which was one of the co-signatories of the underlying treaties, and that of the United States, whose investors had purchased the largest single national share of the bonds. These protests alleged generally breach of contract, and absence of *force majeure* as justification for the breach, and drew attention in vigorous terms to the privileged and unusually solemn character of these particular issues and hence the serious nature of the action of the German Government. Simultaneously discussions of the capacity and willingness of Germany to meet the service of the whole body of its foreign debt flared up all over the world in a way that recalled past discussions of the now substantially extinguished reparation obligation.

Of the nations directly interested in the prospective defaults on the Dawes and the Young bonds at their next semi-annual coupon dates, all but the United States normally show passive

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("unfavorable") trade balances with Germany. Thus the European creditor nations found themselves in a position readily to collect the interest receivable, should they deem it expedient, out of sums currently due by their nationals for merchandise imported from Germany. Clearing systems for the sole purpose of enforcing debt collection are objectionable; they hamper trade and are likely to react unfavorably sooner or later on the creditors themselves. Nowhere are the objections more clearly recognized than in Great Britain, a trading nation interested in restoring the unimpeded flow of commerce. The British Government, however, with characteristic realism, proceeded to equip itself with the bargaining weapon which the nation possessed by virtue of being one of Germany's best customers.

On June 15 (a date the significance of which as also marking the British default on the American war debt was not overlooked by some British commentators) the Chancellor of the Exchequer moved to obtain from Parliament, and a few days later did obtain, discretionary authority to set up debt collection machinery through clearings. The German reply was a threat of retaliation against the British Dominions, which sell more to Germany than they buy from her. Nothing came of this, however, and by July 4 Germany had agreed, in consideration of London's suspension of the clearing system, to provide sterling to pay British holders of coupons maturing to December 31, 1934, on bonds of the two issues which on June 15 had been in the ownership of British holders. Subsequently France, Switzerland and Holland obtained agreements according similar treatment to their nationals.

Meanwhile the United States Government, in a note dated June 27 (apparently not published in Germany) set out in admirable outline the case against the general moratorium. Not having been a party to the international treaties underlying the Reich bonds, it dealt with the special question of their status largely as a part of the broad question of the status of all American investments in Germany. Another note soon followed (July 16) protesting against the discriminatory agreements.

The moratorium announcement expressed the desire of the German Government and of Dr. Schacht as head of the Reichsbank to obtain special concessions for the German export trade, as a consideration for ending or modifying the suspension of transfers on the bonds. The avowed purpose and justification of this suggestion were to enable the Reichsbank, as a result of an

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expansion of exports, to procure increased supplies of foreign exchange with which to meet the service of the debts. When the American Government came to deal with the merits of this proposal the agreement in favor of British bondholders had been concluded, and the American Government firmly rejected the necessity or propriety of its "entering into special agreements as new and additional inducements" to the observance of an existing obligation of the German Government to accord equal treatment to American investors. It stood on the unassailable ground that "the credit of the German Government is pledged on terms of unconditional equality to investors in all parts of these [the Dawes and the Young] issues," and that, in favor of all the creditors without distinction, "exactly the same revenues were hypothecated with a clear absence of reservations, written or implied, at the time the obligations were contracted."

On July 26 it was reported in a press despatch from Berlin that Germany had replied with an assurance of equality of treatment to the United States. At the present writing, this information has not been officially confirmed.

The German Government's unilateral denunciation of its obligations having substantially failed of its purpose, and the substitute régime of discriminatory fulfilments having apparently broken down, it is presumably still open to that Government to deal with the situation by the diplomatic method which would be correct under international law. The obligations undertaken by Germany on the Dawes and the Young bonds were of the highest and most solemn character possible for a nation to enter upon; they were promises offered by a sovereign Power to individuals outside its jurisdiction and without means of ultimate recourse through processes of civil law; the promises were voluntarily given by the obligor; they were pledged on the faith of the nation; and they were ratified by treaties to which Germany was a party. As for the other governments, parties to the creation of the obligations and to the treaties underlying their flotation, those European co-signatory Powers stand as moral guarantors to the whole body of creditors without discrimination.

The German Government upon reaching the conclusion that circumstances rendered impossible the honoring of its obligation, obviously had open to it the proper and adequate procedure of convening a conference of the treaty signatories to consider the case for a moratorium. Such action even now might repair the

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prejudicial consequences to the structure of international relations and credit set in motion by the moratorium declaration and subsequent diplomatic events.

II

The critical October 15 interest date of the Dawes loan is now not far distant. The breach by Germany does not at present consist in any failure to pay semi-annual coupons in foreign currencies; all such payments, prior to those due October 15 on the Dawes loan and December 1 on the Young loan, have been made.[1] The present breach consists in the failure since July 1 to pay to the Trustees instalments in foreign currencies on the fifteenth of each month, as required by the contracts, to be accumulated against the next succeeding interest maturity. In lieu of foreign currencies the Reich is now currently paying the monthly instalments in equivalent reichsmarks to Trustees' accounts in the Reichsbank.[2]

A reliable estimate of the approximate amount required annually to serve all *tranches* of the two loans (without giving effect to the "gold clauses") is, for interest, Rm. 89,000,000[3] (of which Rm. 28,600,000 relates to the Dawes loan) and for sinking funds Rm. 36,800,000 (of which Rm. 21,700,000[3] relates to the Dawes loan) or a total of Rm. 125,800,000, equivalent, at a recent current official rate of exchange,[4] to $49,800,000, of which $35,200,000 represents interest.

In the moratorium note the German Government made an extended explanation of the current deficit in German foreign trade and the related shortage of gold and foreign exchange available to the Reichsbank, which it stated had resulted in the decision to suspend foreign currency payments on the whole body of the foreign debt. In the course of that presentation it was stated:

[1] Subject to the fact that the Trustees claim short payments on certain coupons of the sterling, Swedish crown and dollar issues, on account of non-compliance by Germany with the "gold clause" in the contracts since the United States left the gold standard and later devalued the dollar.

[2] Similar comments apply to sinking fund payments which are required to be made in monthly instalments and completed by October 15th of each year on the Dawes loan and by June 1st on the Young loan. A default in payments for sinking fund of the Young loan, however, has existed since July 15, 1933, when the German Government, over the protest of the Trustee (the Bank for International Settlements), suspended payments in foreign currencies, although it provided the equivalent in reichsmarks.

[3] Slightly larger than figures appearing in the moratorium declaration, which may have excluded requirements for a small amount of bonds issued in reichsmarks, on which the question of transfer would not arise. In the declaration the amount of the annual requirement for sinking fund on the Young bonds is not stated.

[4] Approximating nominal par of the mark, which is $.4033.

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"Germany has never spoken of a repudiation of the loans placed on the market, regardless of whether their aim or their effect was of a productive nature or was for payment of reparations. On the contrary she has always emphasized her determination to honor these loans. . . ." Regarding the Reich loans it stated that "the rights and special position of the two loans will in no way be prejudiced by the contemplated regulation of transfers," and that the Government was "cognizant of the special obligations entered into with regard to these loans."

The general denial of intention to repudiate did not carry the quality and degree of reassurance which the creditors would have been only too glad to be able to gather from it. The agitation in Germany of the past several months directed against foreign debts is too recent and has been too intense and the German internal political situation is too complex for the misgivings aroused abroad to be abruptly dispelled by a formal disclaimer at this time. There was also the palpable fact that the announced suspension of transfers on the Reich loans constituted in itself a treaty violation and breach of contract. A further disquieting factor was the suggestion appearing in the note and elsewhere that the Reich loans and the private debt as well had a political origin and were predominantly connected with the payment of reparations.

Nor were the specific statements on the Dawes and the Young loans found sufficiently reassuring, in the absence of concrete steps to maintain their service. Considering the importance of the subject, they were brief to the point of curtness. They constituted extremely faint acknowledgment of the peculiarly privileged legal and moral position of the two loans, of the importance of the needs which they had served in the post-war rehabilitation of Germany and of the voluntary and solemn nature of the covenants entered into by Germany for their service. And the assertion that the position of these loans would in no way be prejudiced by transfer suspension could not be accepted. Creditors everywhere have a well-founded conviction that moratoria, once assented to, are extremely tenacious, and that unpaid balances rapidly mount to unmanageable proportions. Supporting this feeling there were disquieting reports of opinion in Germany, illustrated by a Berlin despatch in the London *Economist* of June 23, which in explanation of a revival of business optimism and a recovery of stock prices on the Bourse, said that "the conviction

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prevails that a complete transfer suspension, if it can be put through against the retaliation threats of debtor countries, means the definite extinction of the debts."

Secretary Hull brought out the basic weakness of the declaration of June 14, as it related to the Reich bonds, when he said (note of June 27): "It has generally been judged that it is the obligation of a debtor government to so direct its policies that sums required to meet external obligations receive priority over all but the essential needs of the government." The reference which he then proceeded to make to reported extensive German purchases of foreign material susceptible of military use need not, perhaps, here be emphasized. Though the difficulties confronting German financial policy are very great, a nation of Germany's towering position in the world economic structure can hardly in any conceivable circumstances enter a convincing plea of incapacity with relation to an obligation of the order of $50,000,000 a year. The representation of the American Secretary of State as quoted seems therefore capable of standing alone as a conclusive rejoinder. Its pertinence and force are derived from basic conceptions of credit.

Last March, while discussing foreign debts and credit problems, Dr. Schacht said: "I believe one could name several South and Central American republics which defaulted three or four times, but have always been given credit again."[5] This utterance and the declaration of June 14 were depressing to that large body of students and men of affairs who believe that a world organized around credit will again emerge when the follies of economic nationalism have lost their lure. It was a matter of concern that the governors of the policy of one of the world's greatest economic units are unable to recognize the principle of credit — commonly accepted as fundamental to the maintenance of a nation's world position, whether as seller or borrower — that the payments on the national debt owing to foreign investors must be maintained at all hazards.

III

The German Seven Percent External Loan of 1924 was issued for the purpose of putting into effect the report of the Dawes Committee which had been set up to "consider the means of

[5] "The Problem of Germany's Foreign Indebtedness." Address by the President of the Reichsbank before the American Chamber of Commerce in Germany; Berlin March 16, 1934; printed by the Reichsbank.

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balancing the budget and the measures to be taken to stabilize the currency of Germany." The loan was issued in the United States, Great Britain, France, Switzerland, Holland, Belgium, Sweden, Italy and Germany (listed in order of size of allotments) in bonds of various currencies in a principal amount equivalent, at par of exchange, to approximately Rm. 968,000,000.[6] This amount at old parity of exchange was equivalent to approximately $230,000,000. The American block was $110,000,000, of which $60,844,300 was still outstanding on April 15, 1934. Slightly more than a quarter of the total was sold in England. The loan was to be fully retired in 25 years. It was issued (except for the Swedish *tranche*, constituting 3.4 percent of the total) at 92 and the proceeds were paid over to the German Government in gold and foreign exchange.

The principal amount of the loan outstanding March 31, 1934, was the equivalent, without allowance for currency depreciation, of Rm. 648,700,000. Allowing for the depreciation of sterling and Swedish crowns by about 40 percent of their par values, it was the equivalent of Rm. 502,600,000; if effect is not given to the "gold coin" clause contained in the bond of the American issue, the amount outstanding (taking dollars as depreciated by about 40 percent) was the equivalent of Rm. 399,900,000. On the latter basis, the original loan has been reduced by 58.6 percent. Of this reduction, Rm. 249,000,000 is due to the depreciation of dollars, sterling and Swedish crowns, and Rm. 318,000,000 to the operation of the sinking fund through drawings or purchases on the market below the call price of 100 (105 for the American *tranche*).

The service of the Dawes loan is a direct and unconditional obligation of the Reich, chargeable on all its present and future assets and revenues. For the amounts required there was constituted as collateral security a specific first charge on the gross revenues from the customs and from the taxes on tobacco, beer and sugar and from the net revenue of the German Government from the spirits monopoly. In addition, the German Government and the reparation authorities agreed, "for the purpose of providing the necessary foreign currencies for the service of the Loan, that funds required to be sent abroad shall have an absolute right of remittance which right shall have priority over the re-

[6] The dollar equivalent of the reichsmark at par at date of issue was $.238; since January 31, 1934, the date of devaluation of the dollar to 59.06 percent of former gold content, the reichsmark has had a nominal par value of $.4033.

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mittance of funds required to be remitted in discharge of reparation payments or other liabilities," — which at that time constituted a first charge on the assets and revenues of the German Reich.

The Experts' (Dawes) Plan of 1924 was superseded by the New (Young) Plan of 1930, which was temporarily modified by the London Protocol of August 1931 (the "Hoover Moratorium") and will be superseded by the Lausanne Agreement of July 1932, if the latter should receive the necessary ratifications. In each of these agreements the signatory governments expressly declared that nothing therein diminishes or varies the rights of the bondholders or the nature and extent of the German Government's prior obligations and engagements securing the Dawes loan. Moreover, as an essential part of the "transitional measures" as a result of which the execution of Germany's reparation payments is reserved during the interim period between the date of signature and the date of ratification of the Lausanne Agreement, it is provided that the service of the Dawes and the Young loans will not be affected by such reservation.

An essential aspect of the Hague Agreements of January 1930, putting into effect the Young Plan, was a provision for the issue on the international markets of a long term loan to the German Government to yield the equivalent of $300,000,000. One-third of the proceeds was to go to the Reich for the German Railway Company and the German Post Office and Telegraphs. Two-thirds of the proceeds were to go to the reparation creditor governments, allocated as follows: France $132,215,000, British Empire $50,000,000, Italy $13,105,000, Japan $2,060,000, Jugoslavia $1,872,000, Portugal $748,000. This represented a partial capitalization or mobilization, as contemplated by the Young Plan, of the non-postponable reparation annuities fixed thereby.

The Young bonds were issued (in order of size of the *tranches*) in French francs, dollars, sterling, Swedish crowns, florins, Swiss francs, reichsmarks, lire and belgas in a face amount equivalent, at then existing parities, to approximately $351,000,000. The loan, bearing interest at 5½ percent, was issued to the public at 90. The difference between the face amount and the realized net amount of approximately $302,000,000 was due to the discount of 10 points and to commissions and expenses. The principal (face) amount issued in the United States was $98,250,000, of which at December 1, 1933, $91,305,600 was still outstanding. The principal amount issued in French francs was the equivalent of $98,-

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578,000, in sterling $58,400,000, in reichsmarks $8,568,000. The loan matures in 1965, and a sinking fund is provided, computed to be sufficient to retire the entire issue at or before maturity.

The principal amount of the loan outstanding March 31, 1934, was the equivalent, at old parities, of $327,800,000. If, however, effect is not given to the gold value clause contained in the General Bond, and if dollars, sterling and if Swedish crowns are taken as depreciated by about 40 percent of their respective par values, the amount of the loan outstanding March 31, 1934 was the equivalent of $258,600,000 (gold dollars, old parity).

As regards the two-thirds of the service monies provided out of the non-postponable reparation annuities, the German Government constituted as collateral guarantee for the annuities a special tax payable by the German Railway Company and undertook, subject to the charge securing the Dawes loan, to reserve free from any charge securing any loan or credit in priority to, or *pari passu* with, the said annuities, the proceeds of the customs, the tobacco taxes, the beer tax and the tax on spirits. Under the terms of the "Hoover Moratorium" and the Lausanne agreement similar guarantees against interruption of service apply to the Young loan as to the Dawes loan.[7]

IV

During the past two or three years there has arisen in Germany a new interpretation of the events of 1924 and 1930 which would require, for its acceptance abroad, a substantial adjustment of the historical record. The loan of 1924 was the heart of the Dawes plan, and it rescued Germany from an imminent threat of complete economic anarchy. It is not precisely that accepted fact which Germany asks the world to revise, but, more subtly, the interpretation placed upon it.

The Dawes loan operation, like every economic transaction, was a coöperative enterprise, in form two-sided, in consequences many-sided. It was a basic contract between a willing group of purchasers of a promise to pay and a willing seller of his own credit — basic because it released the dammed up forces of pro-

[7] The above paragraphs dealing with the formal characteristics of the Dawes and the Young bonds summarize relevant provisions in the governing documents, and together with the information regarding amounts of the bonds issued and outstanding, substantially reproduce matter appearing in the Fourth Annual Report (year ended March 31, 1934) of the Bank for International Settlements, which is the Trustee of the Young loan and fiscal agent of the Trustees of the Dawes loan.

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duction and trade throughout the world and benefited millions everywhere. It benefited Germany's neighbors and creditors, directly and indirectly, as well as Germany herself. Its initial impact, however, and its most notable effects, were felt by Germany. It immediately and directly provided the Reichsbank with the gold and foreign exchange reserves necessary for the new currency system, through the deposit by the Government of the foreign money proceeds; it immediately and directly provided, through the creation of reichsmarks against the gold deposit and their issuance to the government, the means of balancing the national budget; and it immediately and directly gave employment, through the disbursement of those reichsmarks, to German coal mines and factories for the production of deliveries on reparation account.

Under the impetus thus given to monetary, fiscal and industrial reconstruction, the whole of the German economic organism rapidly took on a healthier tone, and through the consequent reëstablishment of Germany's international credit her working capital was replenished and her industrial plant rebuilt. She experienced a marked expansion of economic activity until, when the world depression struck, Germany had resumed her place among the great producing and trading nations of the world.[8] It can justly be said that the beneficent results of the Dawes loan were felt predominantly in Germany. Germany was *in extremis*, and the formation of the loan syndicate under urgent pressure of her impending collapse was one of the greatest salvaging operations of history. The Dawes loan was the basis of Germany's revival — the foundation stone upon which has been erected her present powerful industrial structure.

What the world is now asked to accept is a characterization of the Dawes loan as one of predominantly political origin, "tainted" by reparations — as not being really devoted to the rescue of Germany because it was also intended to assist, and did assist, her creditors to make collections on the reparation debt. The idea is untenable. If every loan contract from which someone other than the borrower derives a benefit is thereby vitiated, clearly no contracts at all have any force or meaning.

Conceivably, in rebuttal, the coals of old controversies might be fanned by a revival of the question as to the extent to which

[8] As to the extent and reality of this recovery, see James W. Angell: "The Recovery of Germany," published in 1929 by the Yale University Press for the Council on Foreign Relations.

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Germany was responsible for her 1924 plight, or even, going still further back, for the war. But as to the irrelevance in this connection of all that — as to the clear break with the war psychology and controversies which the initiation of the Dawes plan genuinely meant to those responsible for its adoption — adequate contemporary testimony not only from foreign but also from German sources [9] could readily be adduced.

There has also been heard a suggestion, not entirely distinguishable from the one just discussed, that the undertaking of the loan obligation by Germany was not a voluntary one. What has already been said about the beneficent consequences for Germany of the Dawes loan suggests the reply. If a man whose family is down with the smallpox accepts the services of a doctor recommended by the Board of Health, it is not reasonable, when the bill is presented, for him to suggest that he did not voluntarily get the smallpox, and, therefore, did not voluntarily employ the doctor.

An effort has also been made by the German authorities, as evidenced by the suspension a year ago of foreign currency payments for the Young loan sinking fund, to drive a wedge between the Young loan and the Dawes loan and place the former in a secondary moral position.

With respect to fundamental economic benefits felt by Germany, the record of the Young loan is of course much less spectacular than the Dawes loan, although a third of it was applied directly to the requirements of essential public services of the Reich. On the other hand, the voluntary factor in its negotiation by Germany, starting in 1929, was more striking than in the case of the Dawes loan. Germany was no longer in a state of collapse. She was busy and prosperous. She was eager for a new arrangement, whereby in consideration for her agreeing to "commercialize" or, as it was represented, definitely remove from the political category, a portion of the reparation debt, she could obtain an acceleration of the evacuation of the Rhineland, the abolition of the foreign controls of the Dawes plan, a reduction of the immediate burden of that plan, and the annulment of the "prosperity index" feature of its sliding scale of payments. All in all, she wanted to face her obligations of every description as once more a wholly free and independent member of the family of nations.

[9] Including Dr. Schacht, speaking at the Reichsbank, October 31, 1924.

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These things she accomplished, and with no shadow of compulsion placed upon her to offer "commercialization." Compulsion means the use of force. When the offer was made, the Allies still had troops in the Rhineland, but they had already partly evacuated it in conformity with international agreements, and as Germany was meeting all her obligations punctually, the evacuation would have been completed in due course in conformity with those agreements. Germany's record under the Dawes plan had been unexceptionable. She enjoyed good credit, and the Young loan was floated at a favorable interest rate on the security substantially of an international treaty and a statement by the Minister of Finance that "the payment of the principal, interest and sinking fund of the loan is a direct and unconditional obligation of the German Government to the bondholder, for which the full faith and credit of the German Government are pledged." The concluding "full faith" clause, as reproduced in the prospectus for all the world to see, was offered and accepted as a gratification to German pride. Germany's aspiration to face her obligations freely had been recognized as a proper one. Its realization and the acceptance by the investors of the world of an obligation pledged on the untrammeled good faith of Germany were universally hailed as marking a great advance in the conduct of international affairs and the animating spirit of international relations.

On no ground of duress exerted when the obligation was undertaken can the Young loan contract now justly be attacked. There remains only the seemingly inconceivable assumption that the payment in 1930 of $200,000,000 made by world investors to the Allied Governments for the account of Germany might now be retroactively disavowed because of its having been made as a partial payment on a large reparations obligation, the balance remaining on which has since been substantially extinguished by the Lausanne agreement. That agreement itself, however, gives the sufficient answer to this, in the specific undertaking contained therein that the service of both the Young and the Dawes loans would be maintained. Whatever now happens, however, it is clear that the position of the American investors in the loan still will be not only legally but also morally unassailable, for as the American note of June 27 said: "The United States received no reparations from Germany."

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V

For some time past not only the Reich loans but also German external corporate and municipal obligations have been falling under the implication in Germany of having been involuntary in their origin or predominantly reparation-connected in their effect. In a statement appearing at the same time as the moratorium declaration, Dr. Schacht said: "The so-called Layton report of the International Basel Conference of August 1931, established unambiguously the fact that of the yields of the foreign loans[10] more than half, that is, 10½ billion reichsmarks, were directly used for payment of reparations." And a similar statement appeared in the moratorium declaration. As to this, the Berlin letter of the *Economist*, of which Sir Walter Layton is editor, said (June 23, 1934): "Every reader must understand this to mean that the 'yields' were paid not to the German borrowers, but directly to the reparation claiming countries. This is pure central-bank nonsense."[11]

We read further, in the declaration, that "only about half of the equivalent of the foreign capital which flowed into Germany during this period therefore became an asset of the German economic system. While 10.3 billions of reichsmarks in foreign exchange were used for reparations, and therefore could not work in the German economic system, Germany had to take over the burden of interest on and amortization of all the foreign credits."

The loans in question were obtained by industrial, utility and financial corporations and by states and municipalities for purposes represented by the borrowers to be proper and essential,

[10] Stated by the Layton Committee as having amounted to 18.2 billion marks (net) from 1924 to 1930; the gross foreign debt at the end of 1930 was estimated at 25.5 billion, and the net (*i.e.* less German holdings abroad) at 15.8 billion. As of December 31, 1933, the foreign debt was estimated by the *Institut für Konjunkturforschung* at Rm. 12.8 billion (including 6.0 billion short-term, of which 2.5 billion were "Standstill" credits). A large part of the reduction is due to depreciation of the dollar and of sterling. American holdings have been estimated at 30 percent of the short-term, and 50 percent of the long-term debt. These percentages may now be high due to relatively heavy retirements of American-held debt, resulting from depreciation of the dollar and the relatively low prices of German bonds in this country.

[11] Succeeding extracts from this letter are of interest: "The representation of the 'transfer question' during the Reparation years as a running currency sore which had to be perpetually salved with foreign loans is a perversion of the truth. Had such been the condition in 1924–31, the Reichsbank in the matter of its reserves would have been, as it now is, living from hand to mouth, and seeking itself to borrow directly. But it never did this before 1931 . . . There was no hint of a difficulty in the transfer of recurring liabilities until after the crisis of July 1931, which was due to inability to transfer large capital sums [short-term debt]."

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and for the most part of an industrially productive nature.[12] The proceeds were paid over directly to the borrowers for such use. The assertion that these proceeds did not "work in the German economic system" will not bear examination. They put men to work building, reconditioning and extending plant and furnished working capital — creating new productive capacity on a large scale. Germany was equipping herself for a great place on the world markets, providing herself lavishly from foreign funds with the means to compete powerfully overseas and, incidentally, thereby to build up an export surplus which would, with a profit over, produce the foreign exchange required for service of the loans.

That productive capacity, in final result, was translated into German products which, whether consumed at home or sold abroad, supported and elevated the German standard of living and strengthened the whole economic fabric. The manufacture of those products provided means of livelihood for workers and a source of profit for employers which will continue year after year, as long as the physical assets endure — if German policies are such as will induce foreigners to buy German goods.

The fact that part of the annual profits from the employment of the loans during the years from 1924 to 1931 went for reparation payments affects in no sense the truth of the foregoing. If there had been no loans there would have been no reparations derived from taxes on profits earned on the proceeds by the borrowers. Reparation payments, then, would have been derived entirely from existing domestic sources of German income through higher rates of taxes. The total national income, which is the index of a nation's health and prosperity, would have been substantially less, and the reparation burden, relatively to income, substantially higher. The wages which in reality were received by workers in the borrowed-money-built factories, and the earnings which in reality accrued to the employers, would not have been enjoyed. That 80 or 90 percent, say, of the employers' profits which in reality remained to them after payment of taxes levied for reparations would not have come into

[12] Such of the loans to public authorities as were not intended for or applied to industrially productive projects were devoted to objects of current expenditure, including social betterment, approved by the authorities as a dead-weight budgetary charge, and as such could not of course be expected to "work in the German economic system," unless indirectly. It is a matter of record that a serious tendency to over-borrow in this connection was emphasized by Mr. S. Parker Gilbert in advice on the public finances given to the German Government by him in his capacity of Agent General for Reparation Payments under the Dawes plan.

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being and would not have been incorporated into the German economy, as in reality it unmistakably was, as new capital accretions.

Against their promises to pay, the borrowers received foreign money which they deposited in their banks. Such of that money as they spent for foreign equipment went into the German economy in the form of imported productive physical assets. The remainder of the foreign money was sold to the Reichsbank in exchange for marks, which constituted, for the borrowers, purchasing power in Germany for the construction of plants and use as working capital. The foreign exchange became part of the currency reserves of the Reichsbank, and as required by the German Government for reparation payments was sold to the latter in exchange for marks raised by the Government by taxation. The operation of the mechanism of exchange within the Central Bank established a connection between the granting of the loans and the payment of reparations which was a superficial one arising from the mere swapping of currency counters. The two transactions were unrelated in substance.

VI

The Reichsbank currency reserves, consisting of gold and foreign exchange, operate as the principal fund through which receipts and payments of foreign currencies by the German Government and nationals are ultimately cleared. At a given date they represent the major part of the balance of foreign currencies remaining available in Germany. In recent years these reserves have been supported, at first largely by the inflow of foreign currency proceeds of loans designed to increase the country's productive capacity and competitive position, and more recently, after the loans had ceased, by a commodity export surplus and income from shipping and other services. For the years 1930–1933 the commodity export surplus was favorable, though after 1931 in decreasing annual amounts, accompanied by a marked shrinkage in volume of trade. From 1931 to 1933, exports decreased about half and imports about 37 percent. In 1934 the trade balance turned against Germany.[13]

[13] Space does not permit a discussion of the German foreign trade statistics, or of the problem of service on the whole body of the foreign debt. Some significant primary figures are as follows: The German commodity export balance in 1933 fell by Rm. 402,000,000 (almost 40 percent) to Rm. 668,000,000, exports having declined 15 percent to Rm. 4,871,000,000 and imports 10 percent to Rm. 4,203,000,000. It is claimed that during the latter half of the year the value of "supplementary

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The present shortage of the reserves of the Reichsbank is acute. On August 23 its gold and foreign exchange holdings amounted to Rm. 78,000,000 (or 2.2 percent cover to its note circulation), a level at which it had been stationary for two months. Other foreign currency resources available in Germany were estimated by the foreign creditors' committee, from German sources, as having been, in April 1934, not less than Rm. 312,000,000. Since August 23, 1933, the reserves of the Reichsbank have declined from a figure of Rm. 361,000,000; on August 23, 1932 they had stood at Rm. 912,000,000 (or a currency cover of 25.2 percent).

Some Rm. 425,000,000 or more of the reductions in the Reichsbank reserves resulted from the repayment in 1933 of capital liabilities of the bank, representing credits granted by foreign central banks and others in 1931; this reduction, therefore, constituted a deferred liquidation of the international financial panic of 1931, when large short-term foreign credits in Germany were called.

Other causes of the shortage, connected with trade movements, are numerous. Generally, in the world-wide battle-royal of trade deflationary measures, Germany has been, on balance, the

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exports" was Rm. 480,000,000, of which only half brought in foreign exchange, thus reducing the effective export balance, from a foreign exchange viewpoint, to Rm. 428,000,000.

In a statement issued by the Reichsbank on December 31, 1933, Germany's net foreign receipts for 1934 from shipping and other services were estimated at Rm. 250,000,000, showing a decrease of Rm. 270,000,000 from a previous estimate for the year ending June 30, 1934, due to the elimination of an item of Rm. 120,000,000 regarded as non-recurring, representing return of hoarded foreign exchange, etc., and to other estimated decreases of Rm. 150,000,000, resulting from depreciation of foreign currencies, shrinkage in the shipping trade and the use of blocked marks by foreign tourists in Germany.

In the same statement the full annual interest requirements on the foreign debt (based on an estimate of debt outstanding September 30, 1933) were estimated at Rm. 834,000,000. This figure was later reduced to Rm. 734,000,000 by the *Institut für Konjunkturforschung* by eliminating interest on miscellaneous investments held in Germany not requiring immediate transfer. As of December 31, 1933 the *Institut* published a revised estimate of the outstanding debt, showing a decrease of Rm. 1,800,000,000 (of which 1,200,000,000 was in short-term debt) from the September estimate. Allowing for this decrease, the estimate of annual interest would be reduced to about Rm. 670,000,000. A further reduction of Rm. 30,000,000, as originally estimated by the Reichsbank, should be made for interest to be saved on repatriated German bonds, bringing the total annual interest requirements to about Rm. 640,000,000. Of this some Rm. 250,000,000 represents full interest on short-term debt, including from Rm. 90,000,000 to Rm. 100,000,000 representing interest on "standstill" credits. Transfers on these credits have not been suspended by Standstill Agreements, nor of course by the Moratorium Declaration, which relates to long and medium term debts.

During the first seven months of 1934 Germany's foreign merchandise trade was reported as showing an unfavorable balance of Rm. 258,000,000. Exports were Rm. 2,407,500,000 and imports Rm. 2,665,300,000, as compared with 1933 figures for the corresponding period of: exports, Rm. 2,765,000,000; imports, Rm. 2,448,000,000.

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loser. In the existing tangle of restrictions surrounding all international trade, it is useless to try to say which restrictive action in a given series was aggravating cause and which was defensive retort. There is no doubt, however, that recent German trade restriction policies have been extremely aggressive, as a result of the extraordinary emphasis placed by the Nazi Party on the idea of national self-sufficiency.

In foreign trade the element of good-will and good relations is normally very important. There is still discernible in the methods of some governments a not wholly unsuccessful technique of minimizing the offensiveness with which the rôle of economic nationalist is played. A very deft touch is required if embargoes are to be clamped down without stirring up special rancor; and this is true of embargoes on debt payments as well as on imports. The German touch has been far from delicate. In the final result, Germany relatively has lost ground.

Other factors in the foreign exchange shortage obviously include the refusal or disinclination of many foreigners to buy German goods, due to the Nazi policy of race discrimination and coercion of political dissenters, and, more recently, to the "purging" methods of June 30. Discussion of these matters is not called for in this place.

A further cause of the shrinkage in Germany's foreign earnings, to which some observers attribute very great importance, is loss of competitive power on the world markets through high costs. The most suitable remedy for this, in the opinion of some economists of standing, would be formal devaluation of the mark. This is a sensitive subject with many — perhaps most — Germans; and their leaders have declared positively against it. They fear, if devaluation were announced, that recollections of the destructive inflation of 1919–23 would precipitate a currency panic and an uncontrollable "flight from the mark." Consideration of these psychological aspects leads some close observers to regard devaluation as politically impossible at this time. Technical difficulties are also urged as being formidable, due, among other things, to the negligible size of existing currency reserves and the apparent absence of possible foreign sources of stabilization credits. The conviction nevertheless remains strong in many quarters abroad that the Government could successfully cope with the difficulties, both political and technical, and that devaluation is bound to come in the not distant future.

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A feature of the present anomalous position of the mark, which has an important bearing on the foreign trade situation, is the existence of some six or more special kinds of "blocked" marks and scrip, selling at discounts up to 50 percent and apparently averaging 30 to 40 percent. Several classes of these represent mark collections [14] made in Germany for creditors on foreign long-term and short-term obligations. Under the partial transfer moratoria hitherto in force, creditors who need to realize the interest collections in their own currencies have been obliged to convert them, or substantial portions of them, at heavy discounts partly fixed by the Government. The latter has subsidized German exporters with the profits arising from the purchases, at a discount, of these mark deposits, as well as with the profits arising from repurchases abroad, also at heavy discounts, of German external bonds salable in Germany at substantially higher prices in marks. The foreign creditors' committee meeting at Berlin in May 1934 was informed that the subsidies ranged from 8 to 16 percent and averaged 12.3 percent of the exporters' invoice prices. By this means German exporters have been enabled to meet competition abroad by cutting prices, and a substantial so-called "supplementary exports" trade has been built up, recently estimated by the Deutsche Bank at 40 percent of Germany's total exports.

The supplementary exports schemes have, it is claimed, worked well. The Germans maintain that the foreign exchange thereby acquired is a bona-fide net addition to the exchange supply that would otherwise be available, and, in consequence, that there is no just cause for creditors to believe that exchange which might otherwise be available to pay their interest (also thereby maintaining the values of German bonds abroad) is being withheld in order to provide the means, through these devices, of financing German exports.

The contrary view expressed on this obscure subject is that German exporters will inevitably push the supplementary exports to the detriment of normal lines of business that would produce exchange available for debt service. The American Government (note of June 27) stated that "it is the general belief that many of these [bond] repurchases reduced exchange resources which otherwise would have been available to the Reichsbank for other purposes." These beliefs, if unjustified, ought to be, if possible,

[14] The German debtors generally seem able to meet, in marks, the service of their foreign obligations.

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conclusively removed. The real benefits of the supplementary exports system to Germany are problematical; the apparent gains may in reality be substantially counterbalanced by adverse effects on foreign customer psychology. Abroad, the feeling persists that the devices employed are too ingenious, and the fact remains lodged in the mind — however it may be explained away — that the losses of the foreign investors become the profits of the German exporters.

Another substantial adverse factor in the German trade balance resulted from the policy of "work creation" adopted for the relief of unemployment and stimulation of economic activity. In that connection abnormally heavy importations of iron ore, non-ferrous metals and wood for the construction industries, and of cotton, wool and other materials for equipping millions of brown-shirted troopers, cut into the favorable balance of trade, since they were devoted to domestic construction or consumption and not to fabrication of products for the export market. This spring, confronted by the foreign exchange crisis, the Government instituted a system of rationing of raw materials and of foreign exchange required for their purchase abroad. Although the total imports for the first seven months of 1934 are higher than for the corresponding period in 1933, important industries have felt the pinch of the restrictions, and the steady improvement in general business shown during preceding months now appears to have been arrested.

It is difficult to gain a clear idea of the effective direction of present German economic trends. The years 1932 and 1933 marked a drastic decline, amounting in 1933 to some 45 percent from 1931, in the importation of foodstuffs and drink, as compared with a 30 percent decrease in raw materials and partly manufactured goods. This decline reflected a conscious policy directed toward self-sufficiency in agriculture. A logical result of its continuance would be — if such things are possible otherwise than in the realm of logic — to turn large numbers of factory workers into farmers. This shift would, logically, be largely from the industries manufacturing for export; for their markets would be impaired in countries which now supply foodstuffs to Germany. Another conscious effort toward self-sufficiency appears in the movement to develop domestic substitutes for industrial raw materials now requiring importation from abroad. These things look to a decreased German dependence not only on foreign

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sources of supply but also on sales of German products abroad.

The realization of these objectives, however, must obviously be some distance in the future. Germany's present problem is that of a nation which has achieved an important place, now threatened, as a purveyor of manufactures on the world market. Germany has to have foreign raw materials at the beginning of the manufacturing cycle and foreign customer good-will at its end. Her problem, in its immediate aspect, is how to preserve domestic industries from a collapse precipitated by the rapid shrinkage of an export trade which ordinarily pays for the raw materials. There is room for the gravest doubt whether present German policy goes to the root of the problem.

In Germany's present situation, attempts to negotiate favorable barter bargains with the various governments of nations interested in disposing of raw materials, even if successful, do not seem likely to be sufficient. The maintenance of her position is more than a matter of entering upon a new series of struggles for specific advantages with other equally astute and possibly better situated nations, and of trying to compute, as a problem in arithmetic, the uncertain effects of those negotiations, if and when completed, on her currency reserves. The matter is more urgent than that and, basically, of a different character. Germany, it would seem, needs credit — credit of several kinds, but, first of all, basic credit in the eyes of the world. The attitude which on mature consideration Germany adopts toward her obligations on the Dawes and the Young bonds will have a fundamental bearing on the state of that credit.

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HOW REAL IS THE GERMAN RECOVERY?

By George M. Katona

BETWEEN February 1933, when Hitler became Chancellor, and July 1934, the number of Germany's unemployed fell from six million to two and a half million. In the same period industrial production rose by one-third. The German trade recovery evidenced by these widely-published figures was extremely important for National Socialism, since Hitler's alleged success in overcoming the economic crisis justified his rule in the minds of millions of Germans. But a more thorough study reveals that the actual extent of German recovery was considerably smaller than suggested by the figures cited. Further, the recovery was achieved at the cost of enormous sacrifices, and these sacrifices seriously depleted Germany's strength. The present study attempts to lay the foundations for the belief that on June 30, 1934, a new stage of Nazi rule began. Up to that date the German Government was fighting to raise production and decrease unemployment; since then its struggle has been to hold its earlier gains. In judging its likelihood of success even in this restricted field we must take account of the special structure of German economics and of the degree to which Germany is dependent on the outside world.[1]

I. "THE GERMAN RECOVERY IS ENORMOUS"

Of all German economic figures none show an upward movement of such great scope as those covering unemployment. The table on the following page appears to confirm fully the assertion of the German Government that the basic evil of the economic crisis has been overcome.

[1] The figures quoted above for German unemployment and production are taken from official German statistics. What follows is also based exclusively on German statements, above all those of the official *Statistisches Reichsamt* (National Bureau of Statistics), as published in "Wirtschaft und Statistik," and those of the *Institut für Konjunkturforschung* (Institute for Business Research), which is maintained by the Reich Government. In America and other foreign countries the opinion is widely held that German statistics, or at least part of them, are falsified — that more favorable figures than are justified by the actual situation are made public in order to convince the German people of the success of National Socialist rule. Knowing how most of the important economic statistics are determined in Germany, the author does not share this opinion. Moreover, the limits and even the doubtful character of the German trade recovery of 1933–34 can be recognized quite clearly from the official German statements. In addition, dependable private reports which come from Germany make it appear probable that the statistics are correct. This valuation applies to those statistics which show a great recovery as well as to those that show only a slight improvement.

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GERMAN UNEMPLOYMENT[2]

Date	*Unemployed*	*Employed*
End of February 1933	6,004,000	11,553,000
End of May 1933	5,039,000	13,200,000
End of August 1933	4,124,000	13,700,000
End of October 1933	3,745,000	14,100,000
End of December 1933	4,050,000	13,300,000
End of February 1934	3,374,000	13,967,000
End of May 1934	2,529,000	15,559,000
Improvement in 15 months	3,475,000	4,006,000

If one follows the official German comments on the situation in the labor market, the first thing noted is that a considerable part of the decrease in the number of unemployed has come to pass without any additional employment, but only by "substitute employment." The latest available figures show the situation at the end of February 1934; it is unlikely that any considerable change has come since that time. There were then employed: in voluntary labor camps, 230,000; in emergency farm work, 150,000; and in emergency relief work, 550,000; a total "substitute employment" of 930,000. These 930,000 are not included in the list of the unemployed and are recorded in the statistics of the *Krankenkassen* as employed, although they receive no wages. The sums received by them in cash are very much lower than unemployment doles, but the amount that the state has to spend for their maintenance is higher because of having to feed them.[3]

In the summer of 1933 official measures were taken against "double earners," against female workers, the very young and the very aged. Persons who had two occupations were compelled to give up one. Women whose husbands had employment were discharged, aged and youthful workers were discharged and replaced by fathers of families (whose wives could thus be discharged), with the result that the aged were mainly placed under emergency relief and the young were assigned to voluntary labor service. Only one newspaper report tried to estimate the effect of these measures. It declares that unemployment was reduced by 300,000 in this manner without a corresponding increase in the number of persons employed. This estimate seems too low.

[2] The "unemployed" column gives the number of unemployed registered in the labor bureaus; the number of employed is taken from the reports of the German *Krankenkassen* of the number of workers registered there.

[3] There was also a labor service at the beginning of 1933, but persons thus employed were recorded as unemployed.

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Further, moral pressure to reduce unemployment was applied from official sources in the summer of 1933, and is still being maintained. The effects of this are not to be underestimated. The smallest as well as the largest employers were alike obliged to increase the number of their employees in proportion to increases in their production, even if the new orders received could easily have been filled with the labor force already on hand. In addition, moral pressure also sought to prevent the discharge of workers, especially in the winter of 1933–34. Thousands of agriculturists and industrialists thus maintain much greater forces than actually required. Most of the reports of German stock companies show a much greater increase of working force than of production, although in 1933, in contrast with 1932, there was no shortening of the hours of labor. No estimates are available covering the number of unemployed who found work through these measures; but given the great influence of both government and party officials, the number must have amounted to some hundreds of thousands.

In the opinion of the foreign press, further factors contributing to the decrease of unemployment have been the employing of the formerly unemployed by the National Socialist Party itself, and the fact that socialists, communists, etc., are not included in the lists of the unemployed. But it is not possible to confirm or refute these statements.

The factors thus far named probably account for at least half the reduction in the number of unemployed in Germany. That this is so does not diminish the success of the German campaign against unemployment, for the problem in 1933 was above all to rescue the workless from their hopeless wandering through the streets. But it is important to make the facts clear if one is to understand the future prospects of the campaign against unemployment. The further course of German economic development depends not only on employing the 2½ million workers officially listed as unemployed in the summer of 1934; it depends also on the absorption of further millions into productive work.

Even when deductions are made for all "special influences" there remains for the period from the beginning of 1933 to the summer of 1934 a sharp reduction of unemployment which is to be accounted for by the increase of industrial production. The following table shows the extent of that increase, taking 1928 as 100.

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In addition to giving the index for the total production, it contains figures covering the production of crude steel, in order to show the increase in that key industry.

GERMAN INDUSTRIAL PRODUCTION

	Production index (Institut für Konjunkturforschung)	*Steel production per working day (in thousands of tons)*
1931	73.6	27.2
1932	61.2	18.9
1933	69.0	25.1
1933 1st quarter	64.1	20.6
1933 2nd quarter	67.6	25.5
1933 3rd quarter	70.8	25.1
1933 4th quarter	73.4	29.3
1934 1st quarter	81.8	35.0
April 1934	86.2	40.7
May 1934	87.0	43.0

It will be noted that the total German industrial production has increased more than a third in less than one and a half years. Incomparably greater was the increase of 86 percent in the production of steel merely from April 1933 to April 1934. This disproportionate development of the steel industry is explained by heavy orders for rails, cars and locomotives, by the increased manufacture of automobiles, and by new building activity.

But it would be an error to assume that the German trade recovery has been due merely to an increased production of durable goods. It is true, to be sure, that the production of such articles increased much more in the last year than the production of articles of consumption, precisely as it decreased in much greater extent in 1931 and 1932.[4] But the relatively small increase in the case of articles of consumption was chiefly due to the fact that the production of foodstuffs hardly altered at all, whereas important branches of the consumption industry exhibited extraordinarily favorable developments. To this latter group belong the radio industry, which is strongly favored by the government, and the furniture and textile industry. The production of furniture shows an increase of almost 50 percent in one year, due to the government's policy of granting long-term loans at a very low rate of interest to newly-wed couples. The production of textiles has

[4] The index of the production of durable goods increased in the year ending May 1, 1934, from 54 to 80, and that of articles of consumption from 79 to 95.

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increased more than 20 percent, doubtless because of the requirements for uniforms for the national organizations. (The *S.A.* alone had 2½ million members in the spring of 1934.)

One of the greatest increases is recorded by the automobile industry. In 1931, 56,000 automobiles were sold; 41,000 in 1932; and 81,000 in 1933. The total value of the production rose in 1933 from 113 to 230 million marks, and this development has continued even more strongly in the current year. Thus in 1931 the sales of automobiles from January to June totalled 27,800; in the same period of 1932 they totalled 15,400; in 1933 they totalled 26,000; and in 1934 they reached 44,300. This increase is explained less by the active propaganda carried on by the government to encourage motoring — the campaign includes also the constructing of a great network of automobile highways, which will be considered later in this article — than by the fact that it has been made less costly to keep a car. At the beginning of 1933 there was one automobile in Germany for each 110 inhabitants, against about one to 26 in France. In Germany, along with a high tax on gasoline, there was also an extremely high tax on motor vehicles. This latter tax was abolished in April 1933 for newly-purchased autos, and in the case of old cars can be cleared by a single payment.

II. "THE GERMAN RECOVERY IS MODEST"

In view of the great reduction of unemployment in Germany, a considerable increase in the income of the working masses was naturally to be looked for. As a matter of fact, however, 1933 brought only a very slight increase as compared with the preceding year; and the increase from the first quarter of 1933 to the first quarter of 1934 also falls far short of what could be expected. This is shown by the following statistics of the *Institut für Konjunkturforschung:*

INCOME OF WAGE EARNERS, EMPLOYEES AND OFFICIALS

(in billions of marks)

1929	1930	1931	1932	1933	1934
44.47	40.95	33.48	25.86	26.09	——
1st quarter			6.30	6.00	6.80
2nd quarter			6.55	6.49	
3rd quarter			6.58	6.83	
4th quarter			6.43	6.77	

Since these figures do not include the "income" of the un-

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employed from doles and other relief, which in 1933–34 amounted in round figures to one billion marks less than in the preceding year, the increase in the income of the whole body of workers is still smaller. In addition, in the last year wages must certainly have decreased still further, a tendency contrary to all ordinary experience at the beginning of an economic recovery. Unfortunately this belief cannot be checked statistically, since no investigations of wages have been made public in the last year.

However, another class of the German population has undoubtedly profited by the developments of the last year. The cash income of the German farmers, which in the harvest-year 1928–1929 amounted to 10.2 billion marks, but which had dropped to 6½ billions in 1932–1933, rose in 1933–1934 to 7¼ billions. This increase is due above all to the introduction of high protective tariffs, which in the last years before Hitler came to power had already made the prices of most German agricultural products independent of prices on the world market. Many measures adopted much earlier, however, did not become fully effective until last year.

In view of the great increase in industrial production and in the income of the farmers one would naturally expect to find that, despite the fact that the income of the wage earners remained the same, the total national income showed a marked increase. But the official German estimates for 1933 give a national income of 47 billion marks, or only one billion more than in 1932 — an almost negligible improvement when compared with the recession in the preceding years.[5]

Reports regarding the very slight increase of the national income in 1933 are confirmed by the fact that retail sales in the same year, a year of economic recovery, were lower than in 1932, the year of the worst depression. The 1933 business of food stores amounted to 96.4 percent of their sales in 1932; that of the textile stores was 100.7 percent; and that of the furniture stores was 99.9 percent. And it is to be borne in mind in this connection that all these lines of business profited by the defection of customers from the department stores. The strong National Socialist propaganda against buying from department stores, chain stores and one-price stores resulted in 1933 in a falling off of the sales of the *Warenhäuser* to 81.3 percent of their 1932 turnover, while sales of the *Kaufhäuser* dropped to 86.5 percent of the 1932 fig-

[5] The national income was 76 billions in 1929 and 70 billions as late as 1930.

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ure.[6] The first four months of this year, it is true, brought an increase of 9 percent in the total turnover of German retail undertakings as against 1933 (sales were especially small at the beginning of 1933), but a decrease of 4 percent as compared with the same months in 1932. Moreover, the turnover of the department stores has decreased further: the gain in the average sales is due solely to larger sales of the furniture and textile branches. The foregoing data are based on the value of sales. And since prices have risen in Germany in the last year, the development has been more unfavorable in respect of the quantities sold — and, as a result, there has been a corresponding decrease in the purchasing power of wages.

Let us take March 1933 as the date of inception of the Hitler government's economic measures. Since then the official index of the cost of living has risen only from 116.6 to 120.5 percent. Rentals, taxes and social charges, which play a great rôle in this index, have remained unchanged. But wholesale prices have risen in the same period from 91.1 to 97.5 percent (for agricultural products alone from 82.5 to 94.6 percent). The increased wholesale prices for foodstuffs — above all for butter, eggs, meat and vegetables — and for textiles, have undoubtedly influenced retail prices to almost the same extent.

As is seen from the description given later in this article of the great decrease in Germany's exports, the trade recovery of the last year is exclusively a domestic movement. Production for domestic purposes has risen sharply — and this fact appears to conflict with the fact that the national income and domestic consumption have hardly increased at all. In various more or less superficial studies in the non-German press an attempt has been made to explain this conflict. It is asserted that the German domestic economic recovery is exclusively due to the armament industries; that the entire additional production in 1933–34 has been for rearmament. There are no data available that enable an objective student either to confirm or refute the assertion that a part of last year's production served that end. But certainly armaments cannot be regarded as the sole reason for the increase in production. In the first place, comparison between an increase of production and stability of consumption do not take into consideration the fact that there are industries that manufacture

[6] German statistics list as *Warenhäuser* those department stores that handle provisions; department stores that do not handle groceries, meats, etc. are listed as *Kaufhäuser*.

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means of production. A part of the increased production doubtless went to replace or install machinery and other means of production. In addition, the construction and improvement of streets and houses is also a very important factor. Finally, there has been much reserve production in 1933–34. The last year has seen a tendency to increase stocks on hand — a fact officially confirmed in the spring of 1934, when the gold shortage set in. It was stated then that stocks of raw materials and half-finished and finished goods in the cotton, woollen, metal and rubber industries were adequate to take care of a consumption of from four to seven months, against less than three months a year earlier.

III. THE CAUSES OF THE RECOVERY

The German economic crisis reached its most acute stage in the summer of 1932. In the autumn of that year there came a small but general recovery, which can be characterized as a natural upward movement, since hardly any artificial government measures were in force at that time. But the very much stronger economic improvement of the last year must be ascribed in the main, if not altogether, to artificial measures.

These measures took two forms. They consisted, first, of tax reductions aimed at encouraging private investment activity. Reference has already been made to the abolishing of automobile taxes. A portion of delinquent taxes was also cancelled on condition that the persons owing them invest an equal amount in their business undertakings. Through a further decree of 1933, parts of the net profits of economic undertakings were exempted from taxation on condition that these sums be employed for replacing plants, machinery, etc. The most important measures in this group were decided on before Hitler came to power, but their execution falls in the period of National Socialist rule. The tax credit certificates were created by Chancellor von Papen in September 1932. During the year from October 1, 1932, to October 1, 1933, a part of the taxes due from industry, commerce and house-owners was remitted by the issuance, gratis, of these certificates. They fall due between 1934 and 1938, and can be employed in that period for the payment of taxes. If the certificates were sold on the stock exchange immediately after they were issued (as was possible at a small discount in 1933) they were equivalent to a reduction of taxes. But it was also possible to discount them at the banks in order to pay for new investments

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with the proceeds — a step which the government induced many establishments to take.

The second and more important part of the government campaign against the economic crisis consisted of public works. Here again it was Hitler's predecessors, von Papen and von Schleicher, who inaugurated the program of creating work, but the sums expended for this purpose before Hitler took office (January 30, 1933) were very small, only a few hundred million marks. The following table shows the total amounts (in marks) made available up to the end of 1933 for creating employment:

Orders from the Reich railroads	961,000,000
Orders from the Reich post	111,000,000
Contribution for furthering national labor	100,000,000
Appropriated from the Reich budget	283,000,000
Appropriated from credit resources	2,313,000,000
Total	3,768,000,000

There was, however, a difference in time between the authorization and actual expenditure of the moneys. Up to December 1933 only 1.2 billions in drafts for creating work were in circulation; but by June 1934 the amount had risen to over 2 billions. Only small additional sums were made available in the first half of 1934.

The most difficult problem of the campaign to create work was to secure the money. For four years there has been no market for new issues in Germany, and it proved utterly impossible to finance even a small part of the public works by the issuance of long-term Reich loans. The only way open was to finance them by short-term drafts. Officially these are three-month drafts, to comply with the Reichsbank's conditions for discountable commercial paper, but the debtor has the right to have them prolonged from 5 to 20 times, so that the actual term runs from 1½ to 5 years. The drafts are issued by the persons who carry out the public works, with the authorization of a special governmental body. Private concerns which accept the drafts in payment for material or work discount them at one of the public banks created for that purpose.

Only very general details have been made public as yet regarding the various categories of public works. Up to the beginning of 1934, the sum of 956 million marks had been used for the railroads and transport systems, 856 millions for building highways and bridges and regulating waterways, 722 millions for dwellings,

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and 322 millions for land reclamation and settlement. Most of this work was made possible through credits granted by the Reich to public bodies, which are to repay within from 20 to 25 years and meanwhile pay interest at from 3 to 5 percent. Subsidies that do not have to be repaid are granted only for repairing or building houses. The total subsidies granted for dwellings by the Reich amount to 500 millions, and they have allegedly resulted in the expenditure by house-owners of a further 2 billions. The greater part of this sum has been employed for repairs and for dividing up large apartments. In this way the number of apartments in Germany was increased by 31,000 in 1933, and by 12,000 more in the first quarter of 1934.

The financing of public works did not end with the issuance of the work-creation drafts mentioned above. The Reich had to guarantee the repayment of the drafts when they fell due, both to the private buyers and to the Reichsbank, which was to rediscount the greater part. This was made possible by the emission of a further 600 million marks of tax credit certificates in the spring of 1933, and in the autumn by depositing 820 millions of new employment treasury certificates with the Reichsbank. This paper becomes due at the same time as the drafts for creating work. The increase of the German public debt in 1933 is mainly due to these two emissions and to the issuance of tax credit certificates referred to above.

THE PUBLIC DEBT OF THE REICH

External

	Long term	*Short term*
December 31, 1932	2,638,000,000	430,000,000
June 30, 1933	2,598,000,000	407,000,000
December 31, 1933	1,900,000,000	283,000,000
March 31, 1934	1,804,000,000	257,000,000

Internal

	Funded	*Floating*	*Tax credit certificates*
December 31, 1932	7,083,000,000	1,402,000,000	*
June 30, 1933	7,122,000,000	1,642,000,000	727,000,000
December 31, 1933	7,764,000,000	1,750,000,000	1,215,000,000
March 31, 1934	7,801,000,000	1,931,000,000	1,363,000,000

* A small amount of tax credit certificates was issued in the last quarter of 1932.

In 1933 only 40 million marks of the Reich's foreign debts were paid. The considerable decrease shown in the indebtedness to creditors abroad is accounted for by the devaluation of the for-

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eign currencies in which the debts were contracted. While the depreciation of the English and Swedish currencies had occurred mainly in 1931 and 1932, it was not taken into consideration in the statistics of the Reich until December 1933. Then the depreciation of the dollar, pound and Swedish crown was taken advantage of in order to exhibit a considerable decrease in Germany's indebtedness abroad.

Of interest for our purposes is only the second half of the table above, which shows that the Reich's internal indebtedness increased by 2,244 million marks in one year (exclusive of 600 million marks of tax credit certificates deposited with the Reichsbank as collateral for employment creation drafts). The first quarter of 1934 brought a further increase of 366 millions. In Germany this increase of the public debt is generally regarded as a small price to pay for diminishing unemployment. Whether this view is correct cannot, of course, be determined. There is also no object in comparing Germany's public debt with that of other countries. It still amounts per capita to less than that of most industrial countries, but only because the pre-war and war debts were wiped out (except for a tiny remnant) by the inflation ending in 1923. On the other hand, the German people, largely as a result of that inflation, is incomparably poorer than the peoples of the Western European industrial countries.

Of the greatest importance is the fact that the new debts of the Reich are without exception short-term debts. The government has announced its intention to cover debts falling due in the next years out of the ordinary budget, as shown by the table below. It asserts that these heavy payments will be possible because the economic improvement increases receipts from taxes and decreases expenses for the support of the unemployed.

Fiscal year (beginning April 1)	*Amounts due*	*Percent of total Reich expenditure required*
1934–35	917,000,000	15.5
1935–36	700,000,000	11.8
1936–37	780,000,000	13.2
1937–38	750,000,000	12.7
1938–39	715,000,000	12.1

Thus already in the current year, which began on April 1, 1934, almost one billion marks of tax credit certificates and treasury certificates become due. There is, of course, one alternative to meeting them from tax receipts — to float a new long-term loan.

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But up to the present that has been quite out of the question. It is true that in the course of the last year, during which the market has had to absorb no new emissions, the quotations for old Reich loans rose slightly; but even as late as July of this year 6 percent Reich loans were quoted below par, and even so the ability of the market to absorb them was meager.[7] Further, even if a new Reich loan were possible, it would have to be used for other purposes, for so far no means for carrying out future public works are available, and sums now on hand will be exhausted shortly.

The German program for creating work contains one project which will take several years to realize. That is the building of a network of automobile highways covering the whole country. These are being constructed by the German Railroads Company, the *Reichsbahn*. How they are being financed has not yet been disclosed, but certain preliminaries indicate that short-term drafts, renewable at the request of the debtor, are again to be issued. This will of course further increase the Reich's floating debt.

IV. IMMEDIATE EFFECTS OF THE RECOVERY

We have just considered one result of the German economic recovery — the increase of the national indebtedness. The new debts fall due within a short time. Yet this is less important than two other results not yet shown.

In 1933 the public banks succeeded in placing the greater part of the new employment-creation drafts on the private money market. The capacity of the money market to absorb short-term paper was increased by the strict laws governing foreign currencies, which completely blocked German capital from moving into other countries. The transfer moratorium, which went into effect on June 30, 1933, and was made much more drastic on June 30, 1934, also added to the liquidity of the short-term money market. The Reichsbank, the final source of credit, was called on up to December 31, 1933, to rediscount only a third of the total of 1,200 million marks of employment-creation drafts then in circulation. But in the current year the total of such drafts in circulation increased much more rapidly than the amount of liquid funds on the money market. Up to July 1934, 2.2 billion marks of these drafts had been issued, and no less than 1.2 billions still remained in the Reichsbank's portfolio. The amount of these drafts will increase sharply in the next few months, as numerous public works

[7] A first small issue attempted at the end of June 1934 was unsuccessful.

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come to completion. So a further heavy burdening of the Reichsbank can be expected.

The employment-creation drafts represent a first-class short-term investment for the Berlin money market, since they can be rediscounted by the Reichsbank at any time. But the situation is different for the Reichsbank. For this institution it means buying government obligations the most of which become due only after from 2 to 5 years. This is important in view of the German currency laws. The notes of the Reichsbank — almost the only banknotes in circulation in the country — are now covered up to 90 percent by commercial bills and up to almost 10 percent by stocks and bonds; the gold coverage has almost entirely disappeared. And the item of commercial bills (*Handelswechsel*), which amounted on June 30, 1934, to 3,392 million marks, includes the employment-creation drafts.

A comparison of the latest reports of the Reichsbank with those of the preceding year shows only a small increase both of the holdings of commercial bills and of the note circulation. On June 30, 1933, its commercial bills amounted to 3,212 millions; but since then it has acquired a further 360 millions of stocks and bonds. Its holdings of commercial paper appear very large in comparison with the period before the financial chaos of 1931. On June 30, 1930, holdings of commercial bills were only 1,777 millions. One may perhaps characterize everything that has happened since then as "reflation." The deflationary results of the withdrawals of foreign credits in 1931 were offset at that time by the Reichsbank's inflationary policies; the deflation of the following years, in which the emergency credits of the Reichsbank were paid back, was more than compensated for by the rediscounting of the employment-creation drafts. It is still impossible to say exactly what is the danger zone of this Reichsbank policy.

Another phase of the German economic situation has recently attracted very much greater attention, namely the altered conditions in Germany's foreign trade and the losses of gold caused thereby. The results of this can be realized only through a comprehension of the country's economic structure. There is no great country in the world less adapted to "autarchy" than Germany, none less able to shape its economic policy regardless of international repercussions. Germany must import the majority of its requirements of iron ore, copper, rubber, gasoline, wool, cotton and vegetable oils from other countries. It secures the

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funds to pay for such imports mainly from two sources — from exports of industrial finished goods (in normal times more than a quarter of the German industrial laborers work for the export trade), and from services to foreign countries (shipping, insurance, etc.). But when economic conditions become better in Germany, imports naturally rise, while at the same time the export trade has a tendency to fall. When German industrial concerns find a good domestic market close at hand, there is less incentive for them to reduce their costs of production and increase their exports. This was demonstrated repeatedly in the last decade. In 1927 and 1928 the German export trade showed a heavy import surplus; but in 1929 — when the depression began in Germany, many months earlier than elsewhere — the value of the country's exports became equal to that of its imports. In the following three years there were very considerable export surpluses — partly explainable, however, by the fact that the prices of raw materials imported in 1929–32 declined more than the prices of the finished goods which were exported.

These are, so to say, the automatic effects of Germany's economic situation on her foreign trade. But they do not by themselves explain the extent of the latest changes in the foreign trade situation. The decline of German exports is due also to the anti-German feeling of great numbers of foreign consumers of German goods, created by the anti-Jewish policy of the Hitler government and by the cessation of payment of Germany's foreign debts. Russia's attitude toward the new Germany has also put an end almost completely to German exports to that country. Exports were further hampered by the depreciation of the dollar and the pound sterling, while the cost of imports was increased by the higher prices of foreign raw materials such as wool, rubber, etc. The result of all these factors is shown by the following table:

GERMAN FOREIGN TRADE (MONTHLY AVERAGES)

(in millions of marks)

	1932	*1933*	*1934, 1st quarter*	*1934, 2nd quarter*
Imports	389	350	383	385
Raw materials	201	202	236	242
Foodstuffs	124	90	85	78
Exports	478	406	365	331
Industrial finished goods	374	315	278	257
Trade balance	+89	+56	−18	−54

\+ favorable balance — unfavorable balance

In 1933 German foreign trade still did not exhibit the full ef-

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fects of the government's economic policies. A good harvest in that year helped keep imports of foodstuffs down, and imports of industrial raw materials were still small in the first half of the year. But in the first quarter of 1934 about 20 percent more iron ore, 70 percent more copper, 50 percent more wood, 30 percent more oil and gasoline, 40 percent more rubber, 45 percent more hides and furs and 25 percent more wool were imported than in the first quarter of 1933. The value of the imports rose even more. From April 1933 to April 1934 the quantity of industrial raw materials imported increased by 35 percent, but their value by 43 percent; whereas the value of industrial finished products exported decreased by 21 percent.[8] Many foreign commentators have interpreted the heavy imports as meaning only that Germany is rearming, since the increase was greater than the increase of the country's economic turnover. The lack of data makes it impossible to confirm or refute this assertion.

But the above table by no means shows the entire decline of German exports. Since the summer of 1933 an ever-increasing part of these has consisted of the so-called "supplementary exports." These exports, which amounted in the first six months of 1934 to several hundred million marks, are made at prices below the costs of production. The losses of the exporters are compensated for through the profits gained by buying back German foreign bonds and German scrip. In this manner the country's foreign creditors receive a part payment on their claims, and in return they subsidize German exports. This complicated "double currency" system — the export currency as well as that in which foreign creditors receive payments is devalued, while the domestic currency is kept stable — has not been successful in increasing German exports materially, and on the other hand has caused resentment abroad. We will not go here into the details of this method which prevented, at least until the summer of 1934, an open depreciation of the mark: only its effect is of importance for our purposes. And that effect is that while the German foreign trade statistics for the first six months of 1934 show an adverse balance of 217 million marks, the Reichsbank's gold reserves were drawn upon much more heavily in the same period, since only a part of the exports was paid for in foreign currency.

[8] The import figures of May and June, 1934, are less characteristic, since certain import restrictions were imposed in April.

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The results of the latest development in Germany's foreign trade are well known. The Reichsbank on December 31, 1933, still possessed 396 million marks in gold and foreign exchange reserves. By June 30, 1934, these reserves had dropped to 77 millions, although no payments had been made to foreign creditors in the meantime. The heavy imports required for public works have in the last few months resulted in losses of 60 to 70 million marks in gold per month. German gold reserves are, practically speaking, exhausted. The point at which continuation of imports on the former scale became impossible was reached on June 30.

V. CONCLUSIONS

The creation of employment through public works in order to further industrial production was discussed long before Hitler came into office. The von Papen and von Schleicher governments, as set forth above, decided on extensive programs for creating employment; the results came almost exclusively in 1933, that is, after the National Socialists had come to power. But in 1932, when the question whether Germany should or should not resort to an active economic policy to conquer the depression was being discussed with great fervor, there was no general consensus of opinion in favor of creating employment. Briefly stated, the main argument of those in favor of it was that every increase of industrial production and sales leads to an expansion of the volume of credit, and that the reverse is also true, namely, that the expansion of the credit volume leads to an increase of production. Opponents of the program pointed to Germany's very special economic situation, which did not permit making experiments. The program, they said, would have a prospect of success only if it were carried out on a very extensive scale. They pointed out that Germany did not stand alone in the world but was dependent on the repercussions of its economic policy abroad; and it was doubtful whether it could carry through a grandiose policy of credit expansion until a natural economic recovery could consolidate whatever temporary successes might attend the policy of artificially creating employment.

The most recent developments have demonstrated that these fears — which, as said, were already finding expression in 1932 — were not unjustified. As to the second objection, it is enough to say here that even if a country can finance public works through cheap, long-term loans, that still means laying future tax burdens

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on the people, even though the burden is distributed over many years or decades and there is no acute danger of exhausting the means at hand. But Germany, where for years the people have been able to put aside only meagre savings, and where there are no capital reserves worth mentioning, was compelled to place the whole burden on the very next budgets and, for mobilizing the actual funds, had to call on the bank of issue for aid.

Seriously as one may regard the situation just set forth, it is less important today than the direct consequences of Germany's dependence on other countries. This must be considered when we inquire whether it is conceivable that a policy of credit expansion and public works might prove permanently successful in, say, the United States, and yet would produce only temporary successes in Germany. The decisive difference is that Germany at the beginning of the employment-creation policy had only very small gold reserves and no investments abroad (but on the contrary very considerable debts to foreign countries), whereas a great part of the world's gold reserve was heaped up in the United States. If Germany were a producer of staple commodities which — if prices were reduced sufficiently, that is, if sacrifices were made at home — could be changed at any time into gold, and thus into indispensable foreign goods, then the lack of gold would be less important. But the sale of Germany's most important products — machinery, apparatus and chemicals — depends not only on the price and on the sentiment of the outside world toward Germany, but also on the economic situation of those countries that are buyers of German products. For this reason any special German trade recovery, any recovery there in advance of recovery abroad, is especially difficult.[9] The difficulty might be overcome, as it has been overcome in past years, if the world had confidence in Germany to such an extent that it was willing to finance German imports of indispensable raw materials. But if Germany is isolated both politically and economically, and if German prices rise at the same time, thus hampering export trade, the danger becomes acute that Germany's shortage of gold will compel her to put an end to imports of raw materials and thus to the employment-creation policy.

The latest phase of Germany's economic development, which

[9] In 1933 Germany sold 50 percent of its exports to countries where, according to reports of the German *Institut für Konjunkturforschung*, the economic situation either was holding its own or declining; only a relatively small part went to countries experiencing a considerable trade recovery.

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began in the autumn of 1932, ended on June 30, 1934. Up to that date it was still possible to burden future budgets and to pay for required foreign raw materials. Up to that date, moreover — the date of the so-called second revolution — the greatest efforts of the German Government were devoted to winning over the masses and keeping the *S.A.* satisfied by shielding the employed from the danger of unemployment and by holding out prospects of work for the unemployed. Since that date one thing can be said with certainty: the difficulty of continuing the employment-creation policy will henceforth be incomparably greater than it was in the preceding year and a half.

The number of unemployed in Germany will drop to one million within a year — such was the assertion made in the spring of 1934 by Fritz Reinhardt, Secretary of State in the Ministry of Finance, who is in charge of financing the "labor battle." He assumed at that time that the new public credits and the new public works would be sufficient to absorb further millions of unemployed. Now, however, the struggle must be concentrated on maintaining the successes already achieved, and that is the chief difference between the present and the preceding economic phase. The reduction of unemployment achieved in June was very small, and the results of the gold shortage are intensified by the fact that the German harvest this year is very poor.

Answering the question as to what would happen if Germany should not be in a position to import the raw materials formerly regarded as indispensable, Chancellor Hitler said on July 13: "We shall, through our own ability, and thanks to the genius of our inventors and chemists, find ways of making ourselves independent of imports of those raw materials that we ourselves are in a position to manufacture or find substitutes for." It is announced that Germany can produce artificial wool, artificial rubber, artificial gasoline, and many other products. This has not been done heretofore because it was far cheaper to import foreign raw materials. The implication of the new policy is that after the introduction of substitute materials, Germany's ability to export will be further reduced by another increase of the costs of production, and that the standard of living will probably also be lowered further. The question also arises as to whether German consumption, which already in 1933 increased far less than production increased, will not decline after goods made of "genuine" raw materials are exhausted.

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On June 22, 1934, it was decreed that foreign currency for payment of imports would be granted only to the extent that such currency was received daily by the Reichsbank from exports and other payments from abroad. In view of the not inconsiderable reserves of foreign materials on hand, the effects of this drastic quota on imports will not be felt for some months. It is possible that the critical point will not be reached before the coming winter. The development of German production and German unemployment in the interval will furnish the first direct answer as to the true value of the German recovery.

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NAVAL PROBLEMS OF 1935

A British View

By Admiral Sir Herbert W. Richmond

WE ARE upon the threshold of decisions concerning naval policy which will affect profoundly all the great nations for generations to come; and not the great nations only but also the smaller, whose fortunes depend, as we have repeatedly seen, upon those of the greater. Two things are at stake — security and economy. Although defense, in Adam Smith's words, may be more important than opulence, economy in providing defense is not to be despised. If an equal degree of security can be procured at a lesser cost, the methods by which it may be obtained are certainly to be preferred.

Whether, as a result of the conferences that are ahead of us, we obtain security with economy — in other words, efficiency — depends upon the thoroughness with which the problems are investigated. To say that these problems have not hitherto been investigated with the thoroughness which characterizes all real scientific investigations is assuredly no more than a plain statement of fact. That there has been a great deal of discussion between technicians, on technical matters, is true enough. "Expert" has opposed "expert" in his capacity as a litigant pleading in support of the views of his own particular administration; and statesmen, it would seem, have stood behind their experts without making any very searching examination into their case. The pitiful displays of special pleading at Geneva on the subject of offensive and defensive instruments will be fresh in the minds of all.

The naval estimates of the various maritime Powers already reach very high figures. When the existing ships are replaced by new types, larger, faster and more complicated, it is a mathematical certainty that the cost will rise still higher: and — to take a special case — unless the sea routes of my own country are to be in a permanent condition of insecurity, the only alternative to a system of alliances (which may or may not be desirable) is to build vessels in greater numbers than those allotted by the Treaty of London.

Editor's Note. An American view of pending naval problems, "The Setting for the 1935 Naval Conference," by Admiral William V. Pratt, appeared in Foreign Affairs, July 1934.

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Thus the Naval Conference which is due to meet next year demands the most consummate care in its preparatory stages. Three things in particular are needed — long views, scientific methods of investigation, and recognition of the needs of others; concerning the last of which I would recall some words of Wellington in a letter to a French friend: "Soyez sûr qu'en politique il n'y a rien de stable que ce que convient aux intérêts de tout le monde: et qu'il faut regarder un peu plus loin que soi-même." Thus, if any of us is persistently attached to some particular arm, let him not only convince himself that his reasons for his attachment are really sound — and mistakes in policy are possible, even in the highest quarters, as we in our own country are only too painfully aware — but also that persistence in that policy will not injure others and provoke in the end that instability which it should be the object of statesmen to avoid.

There are some differences of opinion which need the most careful examination, and it is to one of those in particular that I wish to call attention — the difference concerning the limit of size of the types of fighting ship. I speak of it in preference to others because it is one which involves the greatest cost and, in the long run, will have one of the greatest effects upon the future.

British opinion holds that a reduction can with complete safety be made of about one-third in the size of the principal fighting ships, and of about one-half in the size of cruisers.[1] American opinion holds, or has hitherto held, a contrary view; which is that, consistently with the security of the United States, it is impossible to reduce the "capital" ship below the figure adopted at Washington in 1921, namely 35,000 tons, and the cruiser below 10,000 tons.

Now, as a first step in considering this question, it is necessary to ask why those sizes were then adopted. With what objects was it decided that a "battleship" must be of that size? Were those objects strategical, tactical or technical? Or was it merely a size which in the conditions of that moment it was expedient to adopt, and was the object, therefore, expediency?

I do not think that there can be the smallest doubt that the reason was expediency. What was the situation in which, at comparatively short notice — notice certainly too short to admit of

[1] The present writer, it should be said, thinks that the possible amount of reduction is underestimated in the case of the principal ships.

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any profound examination of the strategical elements — this size was selected? A great war had been recently concluded, and was in process of being followed by a ship-building competition, from the cost of which even the richest nations recoiled. One battle at sea had been fought, and from that battle certain conclusions of a purely technical nature had been drawn regarding the protection of ships against gunfire. In addition, ships had on occasion been struck by mines or torpedoes. New ships had been designed after the war with these technical elements in mind. These ships were given armor and underwater construction to guard them against injury, and guns of the largest size to overcome the protection of similar vessels of other Powers. Thus, while the heaviest guns afloat during the war were of 15-inch caliber, those of the projected ships would have been, so it is understood, of 18-inch caliber. The ships embodying those features would require a displacement of from 48,000 to 43,000 tons.

Very fortunately common sense came to the rescue. An agreement was made at Washington which, limiting the size of the gun to 16-inch, enabled the tonnage to be kept down to 35,000 tons. It is thus clear that what decided the size of the ship was the size of the gun. Now, ship construction, properly regarded, is applied strategy and tactics. The design of an instrument is governed by the end which it is intended to achieve. The object, as selected in this case, was not the strategical or tactical aim, but the carrying of a gun of a certain size. The assumption was made that it was *necessary* that those ships which constitute the "mass" of a fleet should carry 16-inch guns. Is that "necessity" a fact?

The correctness of this assumption is of the very greatest importance, for it is no exaggeration to say that the expenditure of thousands of millions of dollars, francs, lire, yen, pounds and, eventually, marks also, depends upon it. What the assumption amounts to is just this: that the fulfilment of the needs of strategy and tactics — that is of the employment of that instrument which we call a navy — is impossible if certain ships are armed with smaller weapons than 16-inch guns. Let us examine this most serious, and expensive, theory.

What are the needs of strategy and what is its aim? The preliminary to an answer to this question is another question: What *is* strategy? The art of strategy is the art of disposing force, by

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means of movements, in such a manner as to produce superiority at a desired spot. If the enemy fights, the expectation is that he will be beaten: if, fearing to fight because of his inferiority, he declines the contest, he exposes himself to that form of injury against which his sea forces were built as a safeguard.

The size of the gun, standing by itself, cannot in any way affect the conduct of strategy. The various measures which from time immemorial the strategist (in the person of the statesman or the seaman) has employed in order to achieve superiority have not been dependent upon the size of the guns carried by the ships of the opposing navies. Whether the guns should be 18-inch, or 16-inch, or 8-inch or 6-inch, is immaterial. The strategical combinations and dispositions of the modern wars between Russia and Japan, or the Entente and the Central Powers, were not dependent on the size of the guns with which the several fleets were armed. In one way only was the gun of strategical influence. It demanded a larger ship to carry it. Growth in the size of the ship has this result: that the larger the ship, the less choice she has in the number and position of the bases she can use, and, therefore, while strategy demands mobility, the influence of increased size is to reduce that essential quality.

So far as tactics are concerned, the tactical employment of a fleet does not call for the use of heavy guns. The art of tactics is merely the art of strategy on a smaller board. It consists in bringing about a concentration of superior force upon a portion of the enemy. It is that which the great tacticians of all ages have had as their aim — de Ruyter, Rodney, Suffren, Nelson, Togo. This is in no sense whatever governed by the possession of a certain gun. Tactics are invariably accommodated to the weapons available, and the weapons themselves are purely the result of competition, not of some intrinsic need of tactics. In one connection only can it be said that the size of the gun *may* constitute an intrinsic quality. The introduction of a locomotive torpedo brought in an element of chance in battle, which men dislike. A sea fight, as Nelson said, is always subject to chance, and there is a not unnatural desire to reduce the element of chance as much as it is practicable to do so. A gun which outranges the torpedo, provided it can be used effectively at that range, would enable fleets in most, though not in all, situations to fight outside the torpedo range of the enemy battle line. But in so far as this is a necessity — which is debatable — it does not introduce any

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need for guns of this great caliber. The torpedoes in the battleships at Jutland did not play any part in the battle, though the ships engaged were armed with smaller weapons: and it is a plain fact that modern guns of a smaller caliber outrange the torpedo.

I have heard it urged that the very great gun is necessary because it might so happen that a fleet, in the course of a battle, might come within the range of an enemy fortress, and that if heavy guns were mounted in the fortress it would go hard with the fleet. It would. And if that should happen, a fleet would have to do what fleets have always had to do in the past — haul off out of range: for one does not continue a pursuit when an enemy has received a considerable and effective reinforcement. The fact that the ships were armed with 16-inch guns would make no difference whatever. They could no more disregard the fortress guns than their predecessors could, for a fortress can always carry guns as large, or larger than, those of a ship. So, one of the results of mounting heavier guns in ships is to increase not only the cost of the ship, but also that of all the shore defenses of every country. It does nothing, however, to increase security.

Technique remains. Great size in the ship was necessary to carry the larger guns and to clothe the ship with the armor thick enough to keep out the shell fired by the similar gun of the enemy. But wherein lay the intrinsic need for guns of this adopted size? Is it impossible to fight a battle between fleets whose ships are armed with guns of a lesser size? The whole evidence of fact contradicts any such supposition. At Tsushima, the only decisive fleet action in modern times, the largest guns were of 12-inch caliber, and there were fewer of them on the winning than on the losing side, as the following table shows:

	12-inch	*10-inch*	*9- and 8-inch*	*6-inch*
Russian fleet	26	15	8	66
Japanese fleet	23	1	34	98

In the face of that fact, and with the further corroboration that a decision was not obtained by a fleet greatly superior to its opponent, carrying a hundred more guns and most of these of heavier caliber, it is impossible to imagine that any seaman could be under the delusion that the aim of battle, a decisive result, is obtainable only by the use, in both fleets, of guns of 16-inch caliber.

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Thus, the adoption of 35,000 tons as the tonnage of the so-called "battleship" was primarily due to an assumption that the gun carried by that type of vessel must be of 16-inch caliber. That that assumption was incorrect is as plain as anything can possibly be. Neither the needs of strategy, which is hampered by great size, nor of tactics, which almost disappear with great size, nor of technique, demanded such a gun. There was, however, another reason — expediency, or what was believed to be expediency. No one is unaware of the practical fact that while reason may clearly indicate a certain course, its adoption may be inexpedient. Popular sentiment, the fear of the demagogue and of the press behind him, prejudice, and an unaccustomed outlook all come into play. At the time of the Washington Conference there were great ships of approximately this size, and over, under construction. It required no small amount of political courage to make the sacrifice that was then made of several of those ships, both in the United States and Great Britain, unnecessary as they were and burdensome as they would have been if they had been retained. Today, after thirteen years, we are able to review the problem under calmer conditions. We have had time and opportunity to reconsider the whole matter in the light of strategical requirements and, not less important, in that of the political developments in the world. We are able to take, if we choose so to do, a wider survey of the question than it was practicable or expedient to take in 1921. The time for expedients has passed, and we are now arrived at a time when principles should be adopted as our guide.

While the size adopted in 1921 was determined by the assumption that the 16-inch gun was necessary, and by expediency, another reason came to the front in the succeeding years. Great size was claimed to be necessary in the battleships of a Power which had long distances to go and few bases abroad. The thesis was advanced that a battleship must be able to leave its base, fight its fight, and return to its base in spite of its damaged hulls. That thesis is indisputable. The deduction drawn from it was, however, highly disputable. If the scene of action should lie at a great distance from the base, or, in other words, if the country should not possess bases in the localities in which its fleet may be called upon to operate, it was assumed that the battleships must be of the size adopted at Washington in order that they should be able to make this double voyage.

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Every doctrine proceeds from some assumptions. If the assumptions are correctly made, and if the deductions made from them are logical, there will be reason to suppose that the doctrines represent the truth. Are the assumptions in this case indisputably true?

The picture which this theory presents is one of a body of battleships proceeding from its base remote from the area in which it is required to exercise its influence, bringing an enemy to action, defeating him, and returning to the only place to which it can return, its base. That picture is incomplete. That which proceeds on such occasions is not a body of battleships alone: it is a *fleet*. A fleet is a fighting force composed of the principal fighting units, of the vessels which provide the command with information, of the lesser vessels which protect the large against the submarine; and, if the enemy possesses a surface flotilla, a similar flotilla is needed, or its counterpart in some form. The flotilla of an opponent cannot be disregarded even though there should be a great superiority in the battle-line. As an example we may recollect that at a time — 1917 — when the losses of Allied trade from submarine attack were bringing the Allied cause perilously near to disaster, and when the only way by which those losses could be reduced was by the use of a large number of flotilla craft in defense of the shipping, it was not deemed practicable to denude the Grand Fleet of its flotilla, in spite of the fact that the force of battleships was greatly superior to that of the enemy. Why? Because of the enemy's flotilla.

So the fleet which, supposititiously, is proceeding to conduct operations, which are intended to culminate in battle, against another fleet composed of an equal or inferior number of battleships, together with a flotilla, will certainly require a flotilla itself. It will need flotilla craft to guard it against submarines. It will need "eyes" in the form of cruisers. From that it follows that the base must be near enough to permit these essential lesser vessels to make the same voyages, and possess the same endurance for cruising, as the battleships. But if the hypothesis of great size be correct, this endurance cannot be furnished in vessels of less than 35,000 tons. How then are the services performed by the cruisers and the flotilla to be rendered? We say that the speed of a fleet is the speed of its slowest ship. With equal truth we must say that the endurance of a fleet is the endurance of the least enduring of the vessels of which it is com-

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posed. The difficulties are, in fact, not overcome by conferring great powers upon the battleship alone; they must be conferred upon the fleet as a whole. If it is impossible to give the lesser craft the requisite endurance, the only alternative is the acquisition of bases nearer to the objective. If it is possible to give the lesser vessels the endurance, it follows — obviously — that, as the requisite endurance *can* be obtained in lesser vessels, so this alleged necessity for great size disappears. If nearer bases cannot be obtained, the fleet cannot operate, while if nearer bases, within the range of the lesser vessels, can be obtained, again the necessity for great size, in order to obtain endurance, disappears.

Again, is it an established fact that the great endurance demanded *is* possible only with ships of 35,000 tons? The armored 10,000-ton vessels recently built in Germany have an endurance of some 20,000 miles, which is greater than that of the battleships of over three times their size.

The picture, however, is lacking in verisimilitude in another respect. It supposes that a battle can be brought about at the place and at the time desired by one of the combatants. Nothing could be farther from the fact. The appearance of a superior fleet off the port or coasts of an enemy does not necessarily provoke him to battle. Whether he fights then, later, or not at all, depends entirely upon the prospects he sees of victory. If, in his opinion, there is little likelihood of a victory, or of an effective disablement of the enemy, he refuses to be brought to action at an existing disadvantage, but makes such use as he can of the art of strategy to create more favorable conditions. Certainly, if the fleet can take up some position and maintain it, from which it overawes the enemy until a decision by some other means is attained, it will achieve its purposes. But this is precisely what the hypothecated fleet would be unable to do, however great the endurance which may be conferred upon some of its units by the increase of size. In fact, any idea of substituting endurance in a part of the fleet for the possession of bases within effective operating distance of the whole is a dream. Certain it is that bases may be acquired, though this in turn is only possible if the fleet, *as a whole*, can reach and command the area while the capture is being made. The one fundamental necessity of a fleet base is that it shall enable *continuous* operations to be conducted. The fleet must be continuously near enough to its opponent ef-

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fectively to dominate him. That it is which has always governed the position of a base, whether it was at Gibraltar or Port Mahon, the Firth of Forth, Taranto, or the Elliott Islands. When such a base has been acquired, it is possible to create repair facilities sufficient to give first aid to the wounded ship which shall enable her, whatever her size, to make an ocean voyage in safety.

One misconception, therefore, which appears to inform this theory of the necessity for great size in consequence of an absence of bases arises from thinking in terms of one arm only of a fleet instead of a fleet as a whole. We do not think of armies in terms of the infantry. We have also to consider the other arms, the cavalry (or its modern equivalent), the artillery, the air forces. So, too, we need to think of a fleet. It is a new thing, one which those of our predecessors from whose wars and campaigns we have been accustomed to take our instruction did not need to take into consideration: for the frigate had as great an endurance as the three-decker, and there were no vessels of short endurance corresponding to the modern flotilla craft constituting an essential arm of the fleet. But the general principle was the same. The fleet must possess a base near enough to the enemy's position, or be able to cruise continuously in a station from which it could, as a body, ensure interception of the enemy fleet upon whatever mission it might embark.

There appears to be a second misconception in the assumption that a battle can be commanded when and where one wills. Long and sustained operations usually precede a sea fight. If one side feels itself strong enough to gain a victory, the probability is that the other feels itself too weak. There have been occasions when each felt such confidence in itself that the desire to fight was mutual: but they are few. There is, moreover, a certain phenomenon which is also not undeserving of notice — the indecisiveness of the first great actions fought at sea in almost all wars. There is a curious consistency in the record. The words "decisive action" are in men's mouths, but either the will or the skill or the means have not had time to develop. We see it in the battles off Toulon (1744), Minorca (1756), Ushant (1778), the First of June (1794), the Tenth of August (1904) and Jutland (1916). Each of these was the first battle of the war. Each was indecisive. The risks which men will take later, when they have greater confidence in themselves, they are disinclined to take in the early stages. A shipbuilding policy based upon expectations

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of decisive results in a single immediate great battle rests upon an insecure moral and historical foundation.

Apart from these strategical aspects of the question there are others which demand no less sober consideration. I have said earlier that we require to take wide and long-sighted views — wide, to include all the countries concerned, and long-sighted to include the eventual effects which will result from the policy adopted. Did we take wide enough views when we prescribed for France and Italy in 1921? I certainly think we did not. Neither of those Powers then desired these large ships, and France wished for greater numbers than the terms of the Treaty allowed her. Italy was prepared for any reductions in size provided other Powers made the same reductions. But now we see a change. France has thought fit to design a vessel of over 26,000 tons, the reason given being that it is necessary for her to have ships of this size to deal with the 10,000-ton ships produced by Germany. Italy has recently decided to build ships of 35,000 tons, not because of any newly discovered intrinsic necessity, but merely because other Powers appear determined to maintain that size. France, in her turn, must necessarily reconsider her position.

What is to be the outcome of it all? If the size becomes stereotyped, firmly established, what is to be the situation in that future which only those who are wilfully blind refuse to foresee? Germany asks for "equality of status" — in other words, the right to possess weapons which are permitted to other nations — tanks, submarines, bombing aircraft, aircraft carriers, heavy field-guns and battleships. She may, or she may not, exercise that right to the extent of building ships of precisely the maximum size, but is it to be doubted that she will, when the time comes, furnish herself with very powerful ships — ships at least capable of occupying their full attention? What, then, is to be the effect upon her neighbors? Are we to suppose that France will rest content with the number she is now able to possess — five, or a larger number of ships somewhat smaller? What, then, will become of the "ratios" established at Washington? If it be true that the only means of making ships secure against aircraft is the adoption of great size, it would follow that Germany would have as much need of that size as other Powers. And what does the future hold in store for two of the Baltic Powers — Poland and Russia?

The other major point which the Conference must consider

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is that concerning the cruiser forces. It is one both qualitative and quantitative in its nature. The principle which has hitherto governed the size of the cruiser has been that she shall be large enough to perform those services for which she exists — scouting with a fleet, and duties of a detached nature, mainly on the lines of communication. Experience has fully demonstrated that the qualities necessary for the performance of these duties could be obtained in vessels of about 5,000 tons. Larger cruisers were built in the nineties by France and Russia, not because the existing size was inadequate for the purposes to be fulfilled, but in order to carry armaments superior to those of another Power. The larger size was the result of the French conception of the *guerre-de-course* which brought into existence an armored type of vessel superior to the then existing normal "unarmored" cruiser. Of this the German writer, Admiral Maltzahn, wrote that "England had to respond by building armored cruisers in her turn . . . and when this stronger type was once in existence, scouting and reconnoitring vessels had to conform to it. For in face of an opponent with such powerful ships, scouting vessels would be unable to do what was required of them unless they themselves possessed similar advantages. It was thus, then, that this chief division in the cruiser class arose." The result was a rise in the size of the cruisers of all Powers. The late war gave no indication whatever of any necessity for the increased size, nor any advantage to any of the combatants from its possession. The British cruisers of between five and six thousand tons proved themselves capable of fulfilling all the duties that fall to cruisers, even in such remote waters as the South Pacific where no bases existed. Observe, too, how the cost of the ship has increased. The ship of 5,440 tons which served all the purposes of a cruiser cost £353,437. The cost of the "small" cruiser of 7,140 tons which today takes her place is £1,667,819, or approximately four and a half times as much. And the still larger ships of 10,000 tons are proportionately more costly. Yet, so far as *function* is concerned, they can do no more than their predecessors — fight their similar opponents and control the movements of shipping. It does not appear unreasonable to assume that if in 1912 it was possible to build a ship of 5,440 tons which could do all that a ship of its class was required to do, it should be possible today, with our increased knowledge of use of metal and fuel, of improvements in machines and artillery, at least not to need a larger tonnage to

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fulfil the same needs. If a 6-inch gun was large enough twenty years ago, why is a better 6-inch gun not large enough today?

The other point which will need reconsideration is that concerning numbers. The principle upon which the number of cruisers required by Great Britain has always been calculated has been that of objectivity: the number was dictated by the needs. What were those needs? The defense of trade required that cruisers should be in a certain ascertainable number of places, either escorting convoys or patrolling: and the main body, or bodies, of the fleet needed scouts. The total number of cruisers was that which met these two needs. It was calculable and had been calculated. That principle was for the first time abandoned at the London Conference.

The needs of nations differ. They are not relative. The balance of fighting strength was unaffected by cruisers until, as mentioned above, larger cruisers were introduced. But so long as the cruiser possessed no "battle value" she could not affect the issue: for the decision in war rested, and must always rest, upon the result of conflict between the massed fighting bodies. Each nation could regard without anxiety the cruiser forces of others so long as the numbers plainly expressed the functions of security. Comparisons of the value of seaborne trade, or of the total tonnage or value of entries or departures at the ports, do not furnish a criterion of a country's dependence on the sea or its need of cruisers. There are other elements. These are the relative importance of foreign trade in the economic life of the nation;[2] the nature of the imports; the proportion of foreign trade to total (domestic and foreign) trade; the trade per head;[3] the proportion of foreign trade carried in its own bottoms and therefore not protected by the Treaty of Paris (in Britain this amounts to 86½ percent, measured in value); the proportion of oceanic trade to trade passing across land frontiers; the geographical situation and the extent to which the approaches to a country are susceptible to attack. Nor is another important consideration to be left out of account — ability to defend. The defense of trade, as all experience has amply shown, is possible only in those parts in which the sea forces can find the necessary

[2] A calculation made by a body of economists for the Twentieth Century Fund ("Boycotts and Peace," New York, 1932, p. 206) gave a rough indication of the relative importance, taking as index the United States=1.0. It was as follows: Japan, 1.8; Italy, 2.4; Germany, 2.6; France, 3.7; United Kingdom (trade outside the Empire only), 5.1.

[3] Value in dollars of exports and imports per head of population (1929): United Kingdom, 196; France, 101; Germany, 97; United States, 77; Italy, 46; Japan, 31.

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facilities, i.e. bases. No extensions of endurance or numbers, except upon an astronomical and impossible scale, would for example enable Britain to defend her trade in the Mediterranean in war with a Mediterranean sea Power if she had no bases in that sea.

The true solution of the problem of cruiser strength can only be found if the question is looked at as a whole, with both needs and possibilities in view. If we were all to return to the wise policy of some years ago of keeping the size of the cruiser down to the very smallest figure compatible with the performance of her ultimate functions — scouting and the security of traffic at sea — and leave to each nation the decision as to how many vessels its own security in this respect demanded, we should get not only economy and security, as we used to have them, but we should remove one of the causes of political disquiet. Ratios there have always been in battle forces — the two-power standards of Britain of the eighteenth and nineteenth centuries, the temporary two-power standard over Continental Powers of the France of 1890, the five-to-four standard of Italy vis-à-vis Austria. But never have there been ratios in "cruiser" strength; for the plain reasons that the cruisers, having no battle value, did not alter the relative strength, and that the needs of cruisers are measured upon the basis of what they have to do; which, in turn, is primarily measured by the number of positions in which it is necessary to employ them. The fundamental error of the principle of a "total tonnage" allowance of cruisers lies in the fact that equality or some other proportion of tonnage does not represent equality, or a similar proportion, either of strength or of security.

Let us be perfectly clear in our minds as to the alternatives open to us, and their results. We can persist in our retention of the very large ship, battleship and cruiser,[4] or we can make drastic reductions in their sizes, down to as low as those allotted to Germany. The former course will cause, first, an increase in our already immense naval budgets, because of the cost of the large and costly ships: it will cause a further increase because "improvements" are constantly added in the course of time — the example of the fourfold increase in the cost of the "post-war" cruiser is a warning in that respect: and it will cause a still further increase later — not today, perhaps, or tomorrow, but at a time

[4] I have confined my attention to these, but obviously there are also the questions of the submarine and the aircraft carrier.

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not so far distant that we cannot foresee it — when Germany, restored to "equality," provides herself with the instruments now denied to her, including the "big" battleship and the "big" cruiser, to say nothing of the submarine, the aircraft carrier and the sea-going flotilla craft of all kinds. All those causes which, under mistaken interpretations of the part which sea power plays in the world, have contributed to produce navies, will repeat themselves in a more costly manner. We in our time have seen the cost of navies multiplied twofold in some cases, tenfold in others, for three main causes — political ambitions, the introduction of new instruments of warfare, and the craze for size. We can at least remove the last of these causes and even reverse it. A very heavy burden lies upon the statesmen, with whom the decision rests, clearly to prove that the sizes upon which their experts insist are in reality essential to the security of their nation. No proof of that necessity has yet been given to the world in respect to the present sizes.

The alternative to progressive increase in cost lies in reduction, drastic reduction, in size: and in the establishment of navies upon the logical basis of needs in relation to function instead of upon the false bases which have governed policy in recent years, to the eventual distress and insecurity of the world.

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THE PAN-ASIATIC DOCTRINE OF JAPAN

By C. C. Wang

JAPAN'S Pan-Asiatic Doctrine was announced by the official spokesman of the Imperial Japanese Foreign Office on April 17, 1934. The announcement was followed by similar but more explicit statements by Japan's official representatives in Washington, Berlin and Geneva, all of which were of the same spirit and contained the same fundamental principles: 1. Japan considers itself as primarily responsible for the maintenance of peace and order in East Asia, along with other Asiatic Powers, especially China. 2. The time has passed when other Powers or the League of Nations can exercise their policies for the exploitation of China. 3. Japan intends in future to oppose any foreign activities in China which Japan regards as inimical, and she alone can judge what is inimical. Tokyo considered the third principle as of special importance; and in explaining it, Mr. Saito, Japanese Ambassador at Washington, declared that "Japan must act and decide alone what is good for China," and recommended that all "legitimate foreign interests should consult Tokyo before embarking on any adventures there." The manifesto was considered abroad as the most important declaration of Japanese policy in regard to China which had been made for many years. The sweeping character of the claims put forth and the peculiar form chosen for their announcement were equally startling.

The United States Government took account of the Japanese declaration in a note which the American Ambassador handed to Foreign Minister Hirota on April 29. It was pointed out that China's relations with the United States are governed, as are her relations with Japan and other countries, by generally accepted principles of international law and provisions of treaties to which the United States is a party, and that these treaties are lawfully modifiable or terminable only by processes prescribed, recognized, or agreed upon by the parties to them. The note continued that in its international associations and relationships the American Government seeks to be considerate of the rights, obligations, and legitimate interests of other countries, and expects on the part of other Governments due consideration of the rights, obligations and legitimate interests of the United States.

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Great Britain was the first Great Power to demand an explanation concerning Japan's hands-off-China policy. A "friendly inquiry" was made by the British Ambassador in Tokyo calling Japan's attention to the fact that the principle of equal rights in China was guaranteed very explicitly by the Nine-Power Treaty, to which Japan is a party, and that His Majesty's Government must of course continue to enjoy all rights in China which are common to all signatories. The Ambassador explicitly told the Japanese Foreign Minister that the British Government naturally could not admit the right of Japan alone to decide whether any particular action, such as the provision of technical or financial assistance, was dangerous to China, and openly reminded Japan of her duty as provided in Articles 1 and 7 of the Nine-Power Treaty to call the attention of the other signatories to any action in China inimical to her security.

This "friendly inquiry" took a form which must have exercised Mr. Hirota's best talents in reply. As Tokyo decided not to publish its reply, we can only derive the gist of it from Sir John Simon's statement in Parliament on April 30. Briefly, Mr. Hirota confirmed that the British Government was right in the assumption that "Japan will not infringe the rights of other powers in China or her treaty obligations," and reaffirmed "emphatically" that "Japan would loyally observe the Nine-Power Treaty and continued to attach the greatest importance to the maintenance of the Open Door." The sponge was thus drawn across the blackboard. Japan's solemn assurance to respect the Nine-Power Treaty and to maintain the Open Door served as a handsome blanket to cover up her sweeping claims made through her official representatives, claims which she has neither denied nor withdrawn. The British Government was content with Japan's assurances, because, as Sir John Simon said in Parliament, Great Britain could not as a friendly nation very well reply, "We don't believe you."

Of the continental powers, Italy also demanded explanations and received similarly solemn assurances from Tokyo. Germany, according to a spokesman of the German Foreign Office, did not consider herself immediately concerned in the troubles of the Far East, which remained a question for other Powers to settle. France also seemed to have taken little interest, in spite of her important possessions in the Far East. Soviet Russia neither made any representations to Japan nor asked for any explana-

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tions. This attitude, however, was not because the Soviets did not attach much importance to the Japanese *démarche*, but rather because protests of the most serious sort had been made on so many previous occasions that further protests, couched in no matter what language, were apparently considered futile.

Being the most directly affected party, China naturally was bitter concerning Japan's declarations. Her position is explained by the statement of the Chinese Legation in London, which says that the Chinese people, conscious of their rights and obligations as an independent and sovereign nation, will not subscribe to the doctrine of a Japanese hegemony in Asia, and that they feel certain the other Powers cannot be bullied into accepting it.

The whole episode, which under present conditions the nations prefer to regard as closed, has at least had the satisfactory result of once more reminding the world of the definite trend of Japan's continental policy. Aside from other evil repercussions, the effect on the prospects of disarmament was disastrous and conclusive. Immediate steps were taken by all nations to increase their armaments, especially their air forces, in which Japan took the lead, with Great Britain, France, Italy and Soviet Russia following suit. The United States Government said remarkably little; but it did not take long for President Roosevelt to size up the situation and ask Congress for authority to devote part of the public works appropriation to naval construction. The President's reasoning seems to be that if there is no effective way of opposing Japan, short of a conflict which nobody desires, then nothing remains but to wait for concrete developments, and to build up the navy in the meantime. Thus in a jump starts an armaments race by all nations, the end of which is uncertain and gloomy indeed.

What the anxious world now wants to know is this: What are Japan's chances of success to carry out its Pan-Asiatic Doctrine, and what will be the consequences? To answer these questions we must realize that since the Geneva fiasco, and since the Great Powers took so lukewarm an attitude toward Japan's undeclared war of invasion on China, Japan is not to be moved from her present well-established policy by arguments or scolding, or even by the refusal to recognize "Manchukuo." Something that can be felt, not something that can only be heard, is required. Let us now disinterestedly examine the whole situation, and match the factors that are against with those that are in favor of Japan's fulfilment of her designs.

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First of all, Soviet Russia is considered as most likely to offer resistance to Japan's continental expansion because she knows Japan's designs on Eastern Siberia and has made rapid preparations for eventualities. Japan's 50,000 expeditionary troops sent into Siberia in 1919, her support of Semenov in opposing the Soviet advance in 1920, and her prolonged occupation of Nicolaivsk beginning in 1921, to mention only a few events, must have demonstrated clearly to the Russians that Japan's "life-line," after having moved steadily onward from the Japanese Channel through Korea, will not voluntarily stop at the borders of Manchuria and Jehol. After consolidating its position in that vast and fertile country, known as China's four North-Eastern Provinces; with the Chinese Eastern Railway firmly in its grasp, by purchase or otherwise; and upon the completion of the numerous strategic railways now being energetically pushed forward day and night, Japan will soon be in a most advantageous position. By a simple glance at the map anyone familiar with Far Eastern affairs will be able to realize that Soviet territorial possessions east of Chita will be entirely at Japan's mercy.

Naturally Soviet Russia will be most reluctant to surrender those vast Far Eastern territorial possessions which are so rich in minerals, forest and other resources. On the other hand, she seems to realize the nature of the risks involved in a war with a great military Power such as Japan. She might not be too confident of internal solidarity in case of a protracted war, to say nothing of the attitude of the other Powers towards her. Therefore, the Soviet leaders seem to feel that while to give up Eastern Siberia will have serious effects, to suffer a defeat at the hands of Japan would probably disrupt the whole Soviet régime. Therefore, between two evils, the Soviets have clearly shown an inclination to avoid war with Japan almost at any price. Otherwise it would be impossible to account for their unequalled patience and most exemplary attitude in facing the innumerable provocations thrown directly at its face by Japan and "Manchukuo" during recent years, and its declared readiness to sell the Chinese Eastern Railway which is as essential to Russian interests in Manchuria as the lead is to the pencil. Therefore, unless and until some substantial support is assured by some other Great Power, Russia alone is not likely to accept Japan's challenge.

Next to Russia the United States has the most genuine reasons to be profoundly annoyed by the Japanese threats. Besides the

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open violation of the Nine-Power Treaty and the Kellogg Pact, both of which were sponsored by her statesmen, America's interest in the Pacific is substantial. Her longest seacoast is on the Pacific; Hawaii, which is American territory, and the Philippines, which are under American protection, are in the Pacific; and these islands form the front line in the way of Japan's expansion; while Alaska is nearer to Japan than most other territorial possessions of the Western nations. It is true that the United States has decided to withdraw from the Philippines, but this withdrawal will take many years to effect and before then all sorts of things are likely to happen in that part of the world. Moreover, after having wrested these islands from Spain and ruled over them for so many years with such excellent results, can the United States permit them to slip into Japanese hands even after her withdrawal? Will not such a retreat so weaken her prestige and so enhance Japan's as to expose Hawaii and parts of South America to some untoward consequences? Furthermore, the trade possibilities around the Pacific are of paramount importance to the United States. As President Theodore Roosevelt well said years ago, the importance of the Pacific is destined to outrank that of the Atlantic.

Being a Great Power on the Pacific, the United States cannot afford to permit Japan's unlimited expansion. It is to safeguard her own Pacific interests, both political and commercial, more than anything else, that she has insisted upon the Open Door policy and the integrity of China. Other than this, the United States has no Pacific policy. As this fundamental policy is threatened by Japan's Pan-Asiatic Doctrine, the United States naturally would have ample justification to call a halt. But the dangers to the substantial interests of the United States do not seem to appear to the average American so immediate as to justify the risks which might be involved in calling a halt. It is only natural for nations, as it is for men, to follow the course of least resistance. America may then be expected to wait for the other Powers to take the initiative, especially during the time when she is engaged in a vast reorganization of her national life.

Britain's interest in the Far East is as great as it is extensive. Her investment and shipping enterprises dominate the whole Chinese coast as well as the Yangtze Valley. Her steel, cotton and woollen goods occupy an enviable position in China's growing market; to say nothing about Hong Kong, India and the South

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Sea Island possessions. These extensive British interests in the Far East in general and in China in particular are threatened by Japan's Pan-Asiatic doctrine. It is well known that Japan is preparing to take over Britain's place in the Far East, which is badly needed by Japan's rapidly expanding trade. Much headway in that direction has already been made, in spite of the widespread prejudice against things Japanese which prevails as a direct result of Japan's military activities in China. The inroad made by Japan into Britain's place in the Far East is only checked by the British prestige, laboriously built up during the last hundred years, and the goodwill won by Sir Austen Chamberlain's friendly gesture of 1924, Lord Willingdon's mission to China of 1926, and Lord Lytton's far-sighted statesmanship of 1933. Once that prestige is gone, as it seems already in process of doing, Japan will be in a most favorable position to dictate to China from whom she should buy; and then the very name of Lancashire will become a forgotten word.

Another reason why Great Britain should energetically oppose Japan's continental policy is that the maintenance of the sanctity of treaties and the promotion of peace and security must be of vital importance to Britain, with her world-wide interests and far-flung possessions. Quite apart from its ethical aspects, then, Great Britain should oppose Japan's policy.

But a considerable number of British leaders do not seem to realize the true import of Japan's Pan-Asiatic Doctrine, or at least do not seem to feel that the Japanese menace, dangerous as it is, is so acute or so immediate as the dangers of the situation nearer home. While the political barometer in Europe is so unstable, with a downward tendency, I am inclined to agree with Mr. Vernon Bartlett, diplomatic correspondent of the *News Chronicle*, that "it is not probable that Sir John Simon will change a policy which has consistently found excuses for Japan since the Sino-Japanese dispute first came before the League;" and that, therefore, Great Britain is likely to wait for the United States or the Soviet to act first.

Thus, while nations with a stake in the Pacific are now genuinely alarmed by the steady execution of Japan's Pan-Asiatic designs, and all are anxious to see the onward movement checked, none of them will do anything effective about it. On the contrary, there has been a constant tendency, as we have seen, for each nation to let the other nations bear the burden of

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facing the island empire. Moreover, the Great War has swung the pendulum of Western mentality so far to the pacifist side that the very suggestion of war has been quite sufficient to frighten these Powers into a course designed to avoid displeasing Japan at all costs, so much so that they even dare not resort to their old and never-failing weapon of concerted action, lest Japan should declare war on all of them! Throughout the entire Far Eastern crisis the Western Powers have shown an extraordinary lack of aptitude to unite, especially in view of the fact that there is hardly any likelihood that, with the odium of a unanimous judgment of the League of Nations on her shoulders, and with her interests conflicting with those of all other countries, Japan can get any substantial support from anywhere. What is more, there is hardly any likelihood that these Powers will be able in the near future to free themselves from their present "spell" of individual timidity and collective disunity, into which they have sunk so deeply. After all, international relations must still contain certain elements of gamble. If no one is prepared to see Japan's hand, then Japan must gather in the pot.

The events of the last two years have revealed to the Japanese as a nation a vision of a splendid imperial destiny which matches most admirably with the spirit of "splendid isolation" prevailing in the West. This vision was formerly only clear to a few soldiers and chauvinists. It was befogged by bourgeois ambitions of the industrialists, financiers and diplomats to make Japan a respectable member of the white world's family of nations and was blurred by the fear of concerted Western interference. Nothing now stands in the way of fulfilment of this destiny except the vested interests of the Western nations in the Far East and the charters of exploitation which these nations wrote for themselves before Japan was ready to take her share.

The first step towards the fulfilment of this destiny has been well accomplished by the occupation of Manchuria and Jehol. This step has already had several results. It has cleared the vision of the Japanese people and has committed them so deeply to the policy of the militarists in Manchuria that no Japanese Government would now dream under any kind of verbal pressure of retreating an inch from the position won. It has turned the mass of people back from a sycophantic imitation of the Occident to an appreciation of the fact that they are Asiatics and that, as such, it is much easier to be respected than to be liked.

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What Japan needs now is a breathing period — a period of "peaceful development," as she will call it, during which she will try to consolidate her economic and military resources in "Manchukuo" on the one hand, and, on the other, try to confuse world opinion by broadcasting her benevolent intentions and her superficial achievements artfully accomplished by iron-hand methods. Given such a period of "peaceful development," which may be three to five years, and for which every Japanese partisan will now proceed to clamor, then Japan's success is assured.

The last hurdle to be got over, therefore, is Japan's own financial weakness. The national debt has soared into astronomical figures, expenditure on armaments is colossal, the industrialists are grumbling and so are the peasants. But these difficulties, formidable as they are, are neither likely to restrain the rulers of Japan nor indeed to prove insurmountable. On the contrary, they may well stimulate Japan's militarists to further adventures — to the control of China, and then of territories beyond, *de facto* if not *de jure*, as a remedy for the discontent at home as well as a source of strength to face the West. This is the inspiration to Japan's militarists to move onward, because they argue that if they can get away with such a huge loot as Manchuria and Jehol without a scratch, in spite of the unanimous condemnation of all nations, at a time when Japan's economic condition is so deplorable, then what is there to fear after the "period of peaceful development," when Japan's continental possessions have been consolidated, when China's vast market and resources have come into Japan's hands, and when world opinion is no longer unanimous against her?

Of course, China will resist. But without outside help China is not in a position to offer any effective resistance to such a formidable power as Japan. And Japan will see to it that all outside help is stopped. Japan realizes that it cannot deter the Western Powers from giving help to China; but it can more easily stop China from asking for such help. Therefore Japan's recent manifesto was not so much for the purpose of preventing the Western nations from assisting China as it was for the primary object of frightening China so that she may not dare to ask assistance.

Prestige in the Far East has great value. To have successfully challenged the whole world at Geneva in 1932 and to have spectacularly defied the whole world once more this year — these singular successes are bound to strengthen Japan's hands im-

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mensely in convincing the Chinese that the Christian countries are hypocrites which can only render lip service, that China has no real friends, and that it will be suicidal for China to resist Japan, who can successfully tell all the Great Powers to keep their hands off. The Geneva débâcle and the acquiescence of the Powers cannot but help to make Japan's subtle arguments most convincing. Indeed, the realization that the whole world is unable or unwilling to put its solemn promises into effect will do much to bring Japan near the fulfilment of the prophecy of a Japanese General, made in 1915, who said: "When China realizes that she can get no help against Japan, she will fall into our arms."

In the meantime Japan will do everything possible to stir up trouble in China, as she has so successfully done heretofore, and will bring every pressure to bear on Chinese officials, all for the purpose of preventing China from becoming united and strong. Missionaries of "Asiaticism" and super-patriots with pistols and bombs will help the work along. Pro-Japan politicians will be placed at important places and "pro-China" or "pro-West" elements will either be converted by the missionaries of "Asiaticism" or disposed of with the pistol or bomb, as Marshal Chang Tso-lin, Governor Wu Tsun-sheng, Premiers Hara, Hamaguchi, and Inukai, Baron Dan, Minister Inouye and others have been disposed of, quietly and with impunity, during recent years. Once China's resistance is broken, then militaristic Japan will finally have got her hands on the military resources she has dreamed of since the days of the Mikado Meiji.

Within a few years the nations having vital interests in the Pacific and the Far East will have to throw up their hands in despair at the "Frankenstein Monster" which is today being brought into being due to their lack of courage and their readiness to sacrifice a vital principle and permanent interests for temporary expediency. The whole Far Eastern crisis, therefore, plainly points to this painful conclusion: That which could have been nipped in the bud by a few firm actions in September 1931, was left to drift until it would have required sanctions to arrest it in 1933; and that which can still be stopped by sanctions today will be neglected to develop into a first-class war. My only prayer is that my deductions may be wrong.

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NEW COMPLICATIONS IN COMMERCIAL POLICY

By S

IT MAY be that the multi-colored globes that stand in school-rooms are still found. Out of established habit statesmen may still make declarations in terms of the whole collection or community of nations. It is possible that the inter-governmental machinery at Geneva, called the League of Nations, can repair its broken lines and dramatically bring back into the circle of consultation the important countries now missing. But for the passing day, at least, in all the realms of actuality which make up contemporary history, the world is becoming increasingly divided. A system and conception of general relationship and common rule that in the economic and financial sphere came into existence before the Great War, and in the political sphere was striving to be born after the war, is speedily being lost in a scheme of relationships more segmented than has existed in the experience of living man.

The system to which the nations seem to be turning as the depression completes its fifth year has two outstanding tendencies:

First, international commercial and financial affairs are being increasingly subjected to and made dependent upon the will of governments. The exchange of goods and the payment therefor, the operation of international private finance and the fate of investors in foreign securities, are becoming increasingly tangled in and directed by government action and arrangements between governments.

Second, governments are dealing with each other (and thereby controlling the dealings of their citizens with each other) less and less in accord with the terms of a generally impartial relationship, and more and more in accordance with the terms of infinitely varied and specialized bilateral agreements. Contracts, treaties, and traditions of international law, providing for equality or identity of treatment, are being discarded. By pairs, as in some involved dance in which no one seems to know the music or to be certain of his partner, each country seems driven by necessity to move.

These generalizations require explanation. International commerce has always been extensively controlled by governments, and

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the conditions made by any one government have always shown some measure of variation and of special relationship as between producers of different outside countries. There were some privileged relationships and some extraordinary barriers which originated in fear. But the prevalent basis of international trade since the famous Cobden-Chevalier Treaty of 1860 has been that of equality of treatment. There was a vast world trade directed by the economics of the market-place, in which producers of different countries generally met the same terms. Governments concerned themselves with the state of their trade relationships with the whole of the outer world rather than with particular parts of it. The volume of trade between any one country and each of the rest was deemed primarily to arise from the difference in underlying circumstance of nature or economic development. Thus the inequality in the volume of trade moving between any one country and any other single country was understood to be, in the main, natural. It consequently was not deemed cause for marked rejoicing or resentment that one country purchased much more largely from the second country than it sold to that country; it was believed that the trade relationship with the *whole* of the outside world was the sole sound basis of policy, and that the mechanism of the financial markets, the movements of gold and relative shifts in costs and prices would, in general, bring about a sound adjustment in that total relationship. The important trading countries during the half century before the war acted on this general set of judgments. That the system was then satisfactory was shown by the growth of world trade, and by the fact that none of those countries had to revalue their currencies or resort to other extreme measures. A world economic relationship existed and its results appeared to be mutually beneficial.

So, too, in the financial field. Countries borrowed wherever they could find the best terms. Often loan issues were divided between different lending markets, the same obligation being taken towards all alike. A general rule of equality of treatment towards all investors, irrespective of nationality, tended to be accepted in both lending and borrowing countries. The business of international lending and borrowing was, it is true, closely regulated and often deflected, in accordance with national policies, by the governments of the lending countries. Nevertheless, the loan contract once settled, the relationship thereby established

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between the borrower and the diverse lenders carried high authority and was regarded by all parties concerned with substantial respect. Furthermore, governments were rather slow to be moved into action on behalf of their investors. Protection was given but guardedly and the principle of equality of treatment was retained.

Acute transfer problems seldom arose to complicate the foreign investment situation before the war. The flow of international trade was greater and more regular compared to the existing international debt burdens than has been the flow of depression trade; no such terrific decline of international trade such as that of the past five years occurred. Again, with the exception of the money poured into Russia and a few of the smaller European states as a part of the pre-war diplomacy, there were no important instances of great over-lending such as came into existence after the war. Failure to meet debts arose primarily from budget difficulties or from conflicts such as the Balkan Wars. Under these circumstances, debtor governments facilitated the internal cost and price movements that made payment possible; to do so was the essence of the debtors' obligation. The governments of the creditor countries often stood beside their bondholders in the conferences, but seldom pressed a special advantage to the final limit to serve the bondholders of their own nationality to the injury of bondholders of other nationalities. True, the present-day tendency was there in germ and was occasionally manifested. But, in general, debt situations retained their private character and in case of difficulties the governments of the borrowing countries were left free to treat all their creditors alike, and the general revival of trade was trusted to pull all out of the hole. But now in this sphere, as in the trade sphere, a rapid change has taken place. The treatment accorded foreign investors is becoming a matter of special relationships between the governments of individual countries.

II

The new tendencies first took definite form as among the smaller states of Central and Eastern Europe. These states have had a desperate struggle for economic survival ever since the war. Virtually all of them have found it necessary greatly to limit external payments on debts and forego imports through exchange controls. Despite the attention they received from the political

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and economic specialists of the outside world, and despite the many schemes elaborated in foreign offices, no agreement for trade interchange throughout the region has been effected. Instead, across the extremely complicated gridiron of political and economic interests thin and wavering trade bargaining lines have been drawn in all directions.

These agreements were designed to facilitate a limited movement of complementary trade past the extremely intricate governmental barriers of protective measures and exchange controls. They are highly particularized in character, and contain a multitude of special trade arrangements such as customs quotas, tariff quotas, direct barter arrangements between governmental institutions, and the like. Their duration is short, and they have been constantly revised. Often essential details of these agreements have been kept secret between the parties.

The negotiation of these agreements has been guided very largely by the attempt of each country to insist that every other country buy directly as much from it as it purchases from the other country. Often they are accompanied by arrangements of a "clearing" character, whereunder funds arising from the sales of goods between the pair of contracting countries are deposited in special clearing offices and used only for payments between the two countries; such isolation of funds was insisted upon in each case by the country that had afforded the better market in the past. Many of the trade agreements between these small countries and the larger continental Powers are of the same character. In a few of the arrangements, such as those recently concluded between Italy on the one hand and Austria and Hungary on the other, special political relationships have entered into the framing of special terms. Although the United States and other countries had commercial agreements with various countries in this region based on the unconditional most-favored-nation principle, the provision appears to have lost all force. All general rules or obligations have been scantily heeded in the making of this new web of special trade agreements.

Most observers of affairs in this area have recognized that if all these small states are to live prosperously alongside each other, a regional or series of regional commercial pacts would be required. There has been a disposition to agree that these countries might well extend trade advantages to each other which were not shared with the rest of the world. But the agreements

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that have come into existence represent no broadening of commercial intercourse throughout the area; they permit what is virtually the minimum of trade on strictly offsetting bilateral terms.

In that region the principle of equality of trade relationships was never solidly established. However, in the commercial policy of the British and Dutch Empires it was a cardinal rule throughout the past half century. In both it has now become gravely impaired. The British Empire has intensified its scheme of imperial preferences to such an extent as to create an imperial trade relationship essentially different from that between the different parts of the Empire and the outside world. In addition, the United Kingdom and various of the Dominions have entered into bilateral trade agreements with foreign countries containing arrangements that, by their nature, could not be generalized. In some of the treaties negotiated by the United Kingdom, the chief British demand has been the creation by other countries of quotas designed to secure a favored place in the market for British goods, particularly coal. Correspondingly, the British Government is increasingly partitioning off the British market for foodstuffs on a quota basis, and bartering off the quota fractions in return for privileged market advantages for British goods. In one instance at least, the treaty with Argentina, the British Government secured for its trade the only really effective exclusive privilege that is important under the conditions existing in Argentina today, the prior right to the foreign exchange arising out of purchases of Argentine goods by Great Britain. The obligation thus imposed on Argentina has resulted in a great curtailment of Argentine purchases elsewhere and has forced a shift in trade channels. Advantages of an even more exclusive character have been demanded of the Uruguayan Government for British goods on the basis of Uruguay's dependence on the British market.

This line of policy was adopted by Great Britain after the disappointment of hopes that other countries would reduce their trade barriers sufficiently to permit a substantial revival of world trade along the old lines. Now British policy is reaching with increasing assertiveness along the other line — that of seeking for British interests a privileged position under trade and exchange control arrangements. Wherever the opportunity of entry into the British market or wherever a political or diplomatic

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dependence can be used to secure special advantages to British trade or investment, that situation is being pressed to the utmost. True, the British Empire has maintained the most-favored-nation principle (excluding imperial preferences) in its direct trade relationships with some other important countries, notably the United States, but alongside of this long-standing relationship it has been entering into others of a radically different character.

The shift in the principles of Dutch commercial policy has been even more reluctant than the British. But that trading country also has been entering into an increasing number of bilateral trade agreements, primarily with the nearby countries of the Continent, whereunder the exchange of goods between itself and these countries is arranged in accordance with specially privileged agreements designed to bring about a more nearly equal balance of bilateral trade. In order that this bilateral bargaining may be more successfully effected, trade controls, such as import quotas and customs quotas, have been introduced; the former régime of trade conducted on equal terms with all countries alike has been much modified. The tendency to force a balance of purchases and sales, country by country, has found its place in Dutch commercial policy as in British.

The present commercial policies of the German Government present all phases of the bilateral trade scheme to an extreme degree, both in form and in method of employment. The German Government has recently modified all the trade methods and agreements on which equality of trade relationship rested. While endeavoring to maintain its present place in the markets of those countries which buy more German goods than the other way about, it has addressed itself with determination to all countries which provide Germany with a greater amount of goods than they buy. Faced with the necessity of a substantial export surplus if it were to meet its external obligations and not restrict its purchases of foreign goods, the German Government has pressed its claims for special market opportunities upon the whole world, but with especially intense vigor on those countries for whom Germany is a good customer. By this determined bilateralism, the former channels of trade between Germany and the outside world, established by underlying physical and economic circumstances, have been vastly deflected.

To pursue this line of policy more effectively the German Government has denounced some commercial agreements, has de-

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veloped trade control measures the use of which were not controlled by those commercial agreements to which it remains a party, and has ignored the treaty commitments which could not thereby be rendered unimportant. Among the treaties in question has been the unconditional most-favored-nation treaty with the United States. The guarantee in this treaty of equal rights for American trade has largely lost significance because of the new measures of trade control now employed in Germany. Among these methods has been the employment of a quota system without any fixed basis for allotting quotas on particular commodities as between different countries. But more important has been the establishment of government import purchasing boards or monopolies. These import monopolies are free to buy irrespective of the price offers received from the producers of various foreign countries, and their purchases can be directed along the lines of government preference and in accordance with the terms of special agreements. Further, under the intricate exchange control arrangements now established in Germany the governmental authorities are in a position to dictate for what purposes exchange should or should not be made available.

These in sum create a commercial policy situation in which the ordinary economics of the market-place and the practice of equality of treatment are completely subordinated to the trade, financial and political relationships between the German Government and each other government with which it deals. They are the armory of a system of bilateral and discriminatory trade agreements; they are the means by which other countries which sell goods to Germany are to be reluctantly brought to purchase more German goods. This German trade policy represents the extreme application of methods and principles employed previously by the smaller continental countries (the monopoly system in some respects is like the method employed by the Soviet Government).

The bilateral trade which moves today does so in an atmosphere of reluctant and half-embittered concession, and only to the extent that governments can agree. It is irregular trade, thrice bound round by government red tape and always subject to interruption or destruction. The new trading world is one of special claims and of special advantages, of trade reserved for those who may or can compensate as direct purchasers. In short, it may be said that the basis of the international trade of the world during

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the past half century moved from comparatively "free trade" to "protected trade," and it has now entered a period not only of protected trade but also of "reserved trade."

Under the previously developed rules, price and monetary policies of governments tended to conform to the trade movement. Through the delicate mechanism of adjustment of the international gold standard there was preserved a changing balance between the economy of nations. Under the type of bilateral trading system described, trade is compelled by struggling governments to conform to the limitations of such guarded bilateral bargains as may be struck.

The pursuit of this policy may enable governments for the moment to escape some difficult internal adjustments, but it will not foster trade. It has been calculated that if nothing but direct bilateral trade had taken place between the twenty leading trading countries of the world in 1933 (that is, if the amount purchased by each country from each other country had been reduced to the amount sold to that country), approximately one-third of the already shrunken total would have been suppressed. The inner logic of the policy tends to be that the sole benefit of international trade arises from the amounts exported, and that, irrespective of underlying physical and economic reasons for trade, those who purchase goods from a nation deserve corresponding orders, and those who do not may be justly penalized in the form of discriminatory treatment. The difficulties in negotiations incident to the making of these agreements are great. The habit of careful measurement of assumed benefits makes for criticism on minute grounds. Many of the price advantages that international trade conveyed are lost.

It is possible to argue that under the difficult depression circumstances in which countries have found themselves — circumstances threatening particularly the stability of currencies — this line of development has been inevitable. It is similarly possible to argue that the world trade in the past led to such an unbalance of economies as in the long run to be unsound. But it cannot be expected that the new arrangements will serve the course of trade as well as the old; and it is greatly to be feared that these arrangements, by making trade a matter of discriminatory terms rather than a general rule, will contribute to the many animosities that already divide peoples.

Under these circumstances, can any countries continue to

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follow a policy of equality of trading with all other countries on the same terms? This is a problem which, it may be anticipated, the American Government will soon have to consider.

III

The basis of international financial relations is being similarly modified. The former prevailing attitude, as has already been explained, was that international loan transactions were primarily private transactions and that any necessary adjustment in the terms established by the contract should be worked out between the parties to it. Certainly it was generally assumed that the borrower's obligation ran equally to the bondholders of all nationalities; and, except in time of war, treatment of bondholders of different nationalities was not affected by the state of trade or by monetary relationships between the borrowing country and the various other countries of which the lenders might be citizens. Borrowing countries expected and were expected to draw on the fund of foreign exchange that arose from their transactions with the whole of the rest of the world, and to distribute payments wherever they might be due. When borrowers had difficulty in meeting total obligations, the assumption was that whatever reductions of service were necessary would be made without discrimination on the basis of nationality. All of these suppositions were embodied in the loan contract and were in general accepted by the governments of the lending countries.

In many instances these attitudes are now being replaced. In instances where debtors have become embarrassed (especially where lack of exchange has led to the creation of an exchange control, and not even private debtors otherwise solvent can meet their foreign obligations), those governments which are in a position to use their trade or diplomatic relationships as weapons to secure payment for their own citizens tend increasingly to do so. The cumulative losses suffered by investors in foreign securities fostered a struggle between the creditor interests of different countries, and in this struggle the support of governments has been enlisted. They have induced or forced the borrowing government to provide funds for their bondholders irrespective of the effect on the exchange situation or of the discrimination created *vis-à-vis* bondholders of other nationalities. In most instances this has been worked out through various forms of clearing, under which funds are earmarked for payment of debts due to persons

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of a particular nationality. In turn, borrowing countries, experiencing a lack of available foreign funds and being subjected to pressure in some directions, have tended to take the position that the treatment they would accord to debts running to persons of different nationalities would depend on the trade opportunities made by each of the governments concerned. Out of these tendencies there are arising manifold bilateral agreements between governments having to do with the discharge of debts. These agreements have in many respects replaced the original loan contracts.

The new policy of seeking and enforcing bilateral intergovernmental agreements to insure debt payment arose first in regard to the commercial debts and other short-term obligations that became banked up behind the exchange controls created in the debtor countries. This mass of short-term debt was frequently the working capital of exporting concerns and of foreign-owned enterprises located in the borrowing country. To rescue the holders of this short-term debt, various countries (notably France, Switzerland and Holland) whose citizens purchased more in the various other countries of the Continent and South America than they sold to these countries, began to use, for purposes of debt collection, clearing or compensation arrangements of the type that had already come into existence in the trade between the various smaller countries of Europe. They provided that all or a certain portion of the funds arising out of foreign sales in their domains should be put aside to discharge the debts due to their citizens. All of these agreements, by marking off from the total funded exchange an amount to which debtors of one nationality have priority, incidentally create discrimination *vis-à-vis* the debtors of those countries whose governments either do not desire to pursue the same policy or are not in a position to do so.

In some instances and to some small extent these special arrangements for meeting commercial or other frozen indebtedness have been accompanied by agreements which facilitated payment by opening up new market opportunities for the goods of the debtor nation. In some instances, in fact, the isolated exchange arises largely from such sources. But in every case — and the number of them is increasing apace — the treatment accorded the debts due in each country becomes dependent not on the total trade relationships between the debtor country and the rest of the world, but on the particular bilateral trade relationships. Further,

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no matter what the origin of the debt, it becomes not a matter of private obligation between lender and borrower but an obligation whose fate is dependent on the inter-governmental relationship. To the natural concern of the creditor in the past about the credit worthiness of his debtor and the general trade situation of the debtor country, there is now added the necessity of reckoning with all features of the bilateral trade relationship.

The extent of this development up to the present should not be exaggerated. In many important instances, governments which have been forced to reduce payments on external obligations, and to furnish their citizens only limited amounts of exchange to meet external obligations, have accorded the same treatment to all external creditors irrespective of nationality and without resort to special agreements of the type described. The Argentine and Brazilian Governments, for example, when there was a lack of exchange to meet frozen commercial credits, made the same offer for conversion of these credits into funding bonds to creditors of all nationalities.[1] But the tendency for special bilateral arrangements to come into existence wherever exchange control exists is very strong; and in many instances a debt is worth no more than the ability or disposition of the creditor's government to force or facilitate its payment.

The same tendency is affecting the treatment of funded debts. The situation that has developed is most vividly illustrated by recent events connected with German external indebtedness. On the grounds of an extreme shortage of foreign funds the German Government has suspended payment on all German external obligations, including the obligations of the Reich Government itself, notably the Dawes and Young loans. This suspension affected a great variety of loan issues; something like 115 issues had been sold in the American market alone. Vigorous dispute has arisen as regards the necessity for this action and the responsibility of the German Government itself in creating the exchange situation which now confronts it. But this is not the place to undertake the intricate task of weighing causes and responsibilities.

Whatever these causes and responsibilities may be, various governments whose citizens were investors in German obligations have taken measures to attempt to enforce payment. Holland

[1] The Argentine Government, however, in accord with the Roca agreement, is giving preference to sterling holders of frozen credits that came into existence on a date later than this transaction.

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and Switzerland took the initiative. Their investment in German securities is high compared to their national incomes. Both countries have been large purchasers of German goods; and their purchases are greatly in excess of the sale of their own goods within Germany. Utilizing this situation, they secured agreements from the German Government providing better terms of payment on the securities which they held than the German Government accorded to foreign creditors of other nationalities. These agreements contained features which to some extent connected debt service with extra purchases of German goods, and have been defended as creating the exchange required to meet the service. But the line between "ordinary trade" and "extra trade" is extremely hard to draw; merely by shifting an import duty or regulation a country can shut out goods which later can be put down as "extra" imports. A study of the agreements between Germany on the one hand and Holland and Switzerland on the other affords scant ground for believing that they have fostered any substantial volume of trade that would not have taken place otherwise. They may be regarded in essence as a means of creating what was deemed a defensible basis for continuing service on German obligations owned by persons of Dutch and Swiss nationality, while suspending that service on the same securities held by persons of other nationalities.

It is to be surmised that the Reich at first did not welcome these special agreements. In fact, at a meeting with the creditor representatives at the beginning of 1934 the German Government agreed to give them up. But in connection with the German suspension they were renewed, and in later controversies the German Government has vigorously defended the principle underlying them. Agreements have been struck with the British and French Governments providing for the continuation of service on the Dawes and Young loans in the hands of British and French citizens. These governments have secured this result by threatening to impose clearing agreements on German exports to their territories. The bilateral trade situation was the decisive factor.

No loan agreements could contain more unequivocal pledges of equal rights to all investors irrespective of nationality than those given to the Dawes and Young loan issues. Further, in the case of the Dawes loan, a direct request was made by the Allied Governments to the houses of issue which undertook the loan. The

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Young loan was arranged for by an inter-governmental agreement, and its sale was fostered in all markets by virtue of that fact. In short, in regard to these two particular issues, not only was the German Government bound to a strict rule of equality, but the Allied Governments likewise had an implied responsibility for seeing that no discrimination arose. Nevertheless, discrimination has arisen. American investors in these issues may receive no service while other nationals whose governments could impose bilateral agreements on Germany will continue to encash their coupons. What was deemed to be at the beginning a relationship between the German Government and private investors has turned out to be a matter of inter-governmental relationship, and the telling element has been again the bilateral trade balances. No matter that the American investment aided vitally in reviving the German economy and so made possible the present excess of German sales in the Allied countries, and no matter that present American purchases in other parts of the world create exchange with which, let us say, the British can buy German goods. All of these indirect phases of the situation, as well as the question of Germany's total transfer capacity, are submerged before the dominant fact of the bilateral trade situation.

The German Government has asserted that it was not discriminating because it was willing to negotiate with the American Government an agreement whereby in return for extra direct trade advantages service would be rendered on the American investment. It has virtually asserted that the willingness of particular countries to buy more German goods was the real test of the obligation to pay, irrespective of the fact that differences in economic and physical circumstances must naturally create differences in bilateral trade relationships. The American Government has insisted that the debt obligation was one to be handled primarily between the German Government and the private investor and should not be made into a matter of inter-governmental relationship. There the matter stands deadlocked at the time these lines are written.

This situation may reproduce itself wherever a debtor government finds difficulty in acquiring sufficient foreign exchange to meet external obligations. That it is a temptation for any government to be able to shift the basis of obligation from the loan contract to the trade conduct of the creditor country is obvious. Formerly, it was judged that the responsibility for making such

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adjustments as were required to make debt payment possible lay primarily upon the debtor country. Under the German attitude the responsibility for making the adjustment is placed upon the creditor.

IV

In the scope of an article it is impossible to attempt to weigh the final meaning and result of these developments. It may be that in some instances the new bilateral arrangements will make possible a certain limited movement of trade that otherwise would not occur. And the desire to obtain payment on debts may lead some countries to pursue slightly more liberal trade policies than would otherwise be pursued.

On the other hand, it seems plain that the extension of the present tendency will result in a world thoroughly divided up into segments, with a vast crisscrossing of competing interests. The idea of equal treatment as between all countries will be entirely discarded and replaced by the practice of exceptional rule and special treatment. In numerous situations which formerly were left to the natural adjustment of private interests, governments will be active and busy rivals. The conduct of international trade and the discharge of debt obligations will be attended by the multiplication of government regulations and all the delays incidental to diplomatic bargaining. Within each country, trade and finance will be brought into an intensely close relationship with government in all international operations. The power of national states to agree — already strained — will be subjected to further tests. If it proves inadequate, the *Leviathans* and *Europas* of the present day will be but the greater galleons of a world as little bound together by general trade and rules of impartial treatment as was the world of Sir Francis Drake.

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SECURITY IN THE PACIFIC

By Walter H. Mallory

THE countries in the Pacific area have not customarily based their policies and actions toward one another on the plea of security. Yet it is a fact that security has been a compelling factor in shaping national policies in the East just as in Europe. China has sought to be free from the menace of foreign aggression; Japan has wished to attain a degree of power allowing her to carry out a policy of expansion on the mainland of Asia, a prerequisite, she asserts, to security at home; Great Britain has desired to be in a position to defend her possessions in the Orient; America has demanded security of trade in the Far East on equal terms with all nations. It will be noted that the security sought by three of these nations has been the security of the *status quo;* the security aimed at by Japan has been based on changes in the *status quo.*

The last day of December 1936 will see the expiration of a treaty which has helped to stabilize the situation in the Far East and to give each signatory Power a degree of security — the Naval Treaty negotiated at the Washington Conference in 1922, and amplified and extended at the London Naval Conference in 1930. This treaty requires that the Powers shall meet in 1935 to consider framing a new convention. Along with the Four-Power and Nine-Power Treaties which provided its political basis, it has been the corner stone of the structure of security reared in the Pacific since the World War. Already preliminary conversations are going on between the principal Powers in an effort to set the stage for the negotiations next year. It may therefore be useful at this time to recall the situation which existed when these treaties were signed, to recount the main events which have since occurred to alter the relative degree of security of the Powers, and to examine their present attitudes in so far as they are known or can be conjectured.

In 1921 a war-weary world, staggering under the increasing cost of armaments, welcomed President Harding's invitation to confer in Washington on naval armaments and Pacific questions. In his invitation the President stated that the prospect of reduced armaments was not a hopeful one unless the desire for peace should find expression in a practical effort to remove the broad

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causes of misunderstanding. It was doubtless to serve this purpose that the agenda of the Conference was made to include all the important Pacific and Far Eastern questions which seemed particularly troublesome at that time. It was clear that the possibility that Great Britain, Japan and the United States would agree to a reduction of naval strength and to limitation at lower levels would be greatly strengthened by the removal of causes of irritation and of what appeared to be threats against the security of each. Japan was concerned by American fortification of the Philippines and the threatened fortification of Hong Kong by Great Britain (which would bring foreign naval bases closer to her doors). Great Britain and the United States feared that Japan might enlarge her sphere of influence on the mainland of Asia and thus threaten the freedom of their nationals to trade in China. The United States also felt disturbed by the Anglo-Japanese Alliance. There was in addition the possibility that Japan would fortify the Pacific Islands under her control.

It is not clear whether the idea of including general Pacific questions on the agenda was initiated by Great Britain or by the United States (the preliminary correspondence has not been published). But it is certain that Great Britain welcomed this opportunity to provide a wider basis of coöperation with Japan, and one that committed her less bindingly than she had been bound by the Anglo-Japanese Alliance then about to expire. The Anglo-Japanese Alliance was formed in 1902 and enlarged and extended in 1905 and 1911. It was intended at first to protect India and Manchuria against any encroachment by Russia, and later to counter the rising tide of German influence in the Far East. The weakening of Russian and German military power due to the World War left the Alliance without a definite aim. By its terms it appeared to be in force against the United States, although the British and Japanese Governments both officially stated that Great Britain would not be bound to aid Japan in any war with America. Yet the temporary elimination of Russia as a military power appeared to place the United States in its stead, since she now seemed the most likely country with which Japan might become embroiled. Thus the British were glad to consider ending an arrangement which held greater obligations than rewards, provided it could be done without offending Japan, particularly since such a step would be interpreted by the United States as a distinctly friendly gesture.

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That it was so regarded may be seen from the official statement of the American delegation at the end of the Conference. It said: "This Alliance has been viewed by the people of the United States with deep concern . . . It was, therefore, a matter of deep gratification that the American delegation found that they were able to obtain an agreement by which the Anglo-Japanese Alliance should be immediately terminated." In the debate in the Senate at the time of the approval of the Four-Power Pact, Senator Lodge said: "The chief and most important point in the treaty is the termination of the Anglo-Japanese Alliance . . . in my judgment it was the most dangerous element in our relations with the Far East and with the Pacific. Wars come from suspicions which develop into hatreds and hatreds which develop into wars. The Anglo-Japanese Alliance caused a growing feeling of suspicion not only in the United States but in Canada. On the other hand it tended to give a background to Japan which encouraged the war spirit and large preparations both by land and sea for future conflict. It immobilized England and prevented the exercise of her influence in the East for the cause of peace."

As already noted, three treaties were signed at the Washington Conference which profoundly affected the question of security in the Pacific — the Four-Power Treaty, which provided for consultation between the signatories in case of controversy and which terminated the Anglo-Japanese Alliance; the Nine-Power Pact, which established for the first time on a contractual basis the Open Door in China; and the Naval Treaty, which provided for Great Britain, the United States and Japan a 5–5–3 capital ship ratio and an agreement to maintain the *status quo* with regard to fortifications and naval bases in the Pacific.

Let us now see how these agreements contributed to the security of the principal parties concerned. Great Britain obviously had no aggressive intentions in the Far East. Since the war her policy in every particular save trade has been one of liquidation and withdrawal. She has made India her Far Eastern outpost and her strategy has been based on the defense of India and of the trade routes of the Empire. She therefore was prepared to forego the privilege of fortifying Hong Kong and to base her fleet on Singapore. The termination of the Anglo-Japanese Alliance relieved her from an obligation which had become irksome. The signing of the Nine-Power Pact in which the signatories pledged themselves to respect the territorial integrity of China and the Open Door

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seemed to provide adequate safeguards to British trade on the mainland of Asia; the Four-Power Treaty furnished a mechanism for consultation in case of controversy; and the Naval Treaty made the defense of India secure, since Japan with an inferior navy would be unlikely to attack her, and the United States with an equal navy could not successfully do so without a strong naval base in the Far East.

The United States, also without aggressive intentions, was prepared to give up the further fortification of the Philippines or the erection of new Pacific naval bases in return for the increased security which she stood to gain in other directions. Her most consistent policy in the Orient has been to obtain agreement to the doctrine of the Open Door in China, and observation of it. The Nine-Power Pact was intended to provide that all nations should henceforth be able to trade in China on equal terms. It seems certain that the United States would not resort to war directly in support of the Open Door doctrine. But the vigorous support which she would give that doctrine in case it were challenged by another Power might start a chain of incidents that would lead to conflict. The agreement thus appeared to add to American security. In return for the termination of the Anglo-Japanese Alliance, the United States was willing to take whatever risks were involved in agreeing in the Four-Power Treaty to consultation in case of controversy. Finally, the Naval Treaty provided that so long as it was in effect the United States would be secure from attack by either Great Britain or Japan.

China's security seemed very much increased by the Nine-Power Pact in which the Powers all agreed to respect her territorial and administrative integrity. Other agreements signed at the Conference provided for the return to China of Shantung by Japan and the withdrawal of Japanese garrisons from China. Great Britain also promised to turn back Weihaiwei.

There can be no doubt that the Washington agreements added to the security of Japan. When the Conference was convened, the United States was engaged in the fortification of the Philippine Islands. She also was engaged in the construction of a fleet which Japan would have found it very costly to emulate. Without stronger naval bases in the Pacific (nearer than Hawaii and Singapore), neither Britain nor the United States could successfully attack Japan unless they enjoyed greater naval superiority than the new Treaty provided.

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The Washington treaties were accepted and ratified by the Powers concerned despite considerable criticism in naval circles in each country. Later, during the London Conference in 1930, bitter opposition developed in Japan toward the renewal of the naval treaty. But at the time each country seemed satisfied that its sacrifices were amply compensated for in the added security which it had won. Now after twelve years it is possible to see how far the hopes then expressed were ill-founded. In particular, consideration of a proposal to revise or extend the Naval Treaty compels us to take account of the sweeping changes which have occurred since 1922. Two events of overriding importance have altered the situation — the action of the American Congress in granting independence to the Philippines, which may be regarded as increasing the security of the other Powers in the Far East; and Japan's action in Manchuria, and her recently announced "hands-off-China" policy, which have served to diminish the security of other Powers.

It has been the avowed intention of the United States ever since she acquired the Philippines, to set them free. But her long delay in bringing forward any concrete plan giving effect to that intention caused serious doubts in the minds of other Powers regarding her sincerity. And when it was decided to fortify the Islands the American professions seemed hollower than ever. The agreement not to increase fortifications, and now the definite decision to quit the Islands in ten years, make it clear that the tide of American "imperialism" in the East has turned. It is true that the bill granting independence makes provision for a possible naval base in the Islands. But once they have been freed it is hardly conceivable that Congress would vote appropriations for fortifications there unless considerations quite distinct from the Islands themselves should require a return to the theory of dominant American naval power in Asia. If satisfactory arrangements can be made with the other Powers, therefore, we can assume that the United States will retreat to Hawaii as its Pacific outpost; and this must inevitably give added security from possible American attack to the other nations having interests in the Orient.

But more important as affecting this problem is Japan's action in Manchuria. If China had any real feeling of security as a result of the signing of the Nine-Power Pact guaranteeing her territorial integrity, it was most rudely shaken by subsequent Japa-

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nese action. Not only has China's territorial integrity been violated, but four of her rich provinces and over 30,000,000 of her population have been withdrawn from her control; and a new state answerable to Japan stands in their place. This action has served also to arouse fears in other quarters. The fact that Japan was ready to use her military and naval strength beyond her own borders and with aggressive intent is sufficient to make other countries feel insecure, quite apart from the fact that in so doing she seemed to them to be violating treaties to which both she and they were parties. Moreover, this action by Japan threatens the security of the other Powers in their desire for equal trading opportunities on the mainland of Asia. The very treaty in which Japan agreed to observe China's territorial integrity provides in Article III for the maintenance of the Open Door. In violating one clause may it not be inferred that she has perhaps set aside the whole treaty?

It may be recalled that Japan's justification of her course is based on the plea of her own insecurity. Her interests in Manchuria were threatened by the Chinese, who allegedly denied her rights provided by treaty. Furthermore, she saw the possibility that Russia might again come down from the north to deny her the resources of the mainland which may mean "life and death" to her people. Her conquest of Manchuria and erection of a puppet state there must therefore, according to her own theory, greatly have increased her own security, even though it has put such a severe strain on the nerves of her neighbors.

It will thus be seen that the situation in 1934 is very different from what it was in 1921 when the Washington Conference met. Take, for example, the case of Great Britain. She is bound to feel that her traders have less security than she planned for them in 1922. She has seen Japanese naval forces in action far from their home ports. Also, she has engaged in a bitter trade war with Japan in India. Freed as she now is from the obligation to Japan which the Anglo-Japanese Alliance entailed, is it to be presumed that she will prove as easy to negotiate with as Japan found her before? And would Britain feel as secure with a renewal of the 5–5–3 ratio as she did originally? Or does it not seem more likely that if security were the only consideration she would wish a greater preponderance than formerly satisfied her?

The case of the United States is almost analogous to that of Great Britain. China, not being a naval Power, will not partici-

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pate in the negotiations for a renewal of the Naval Treaty. France and Italy are concerned more with European affairs, which will doubtless determine their attitude. Russia is not a party to the Treaty.

It has been shown above that the events which have transpired since the Washington Conference have seemed to increase the security of Japan and to decrease the security of the other Powers. Yet in the preliminary conversations which have been held (so far as we know their content), and in the official statements of the Powers, it is only Japan who has made any suggestion of the abolition of the 5–5–3 ratio. Japan's policy, as so far revealed, seems to be to persuade the Powers to put aside the question of agreement on the relative size of their navies. This may be due to a desire on her part to increase her ratio without running the risk of offending Great Britain and the United States; or it may be prompted by considerations of prestige, by the wish to be relieved from the position of inferiority involved in accepting limitation to a smaller navy, even though in fact she may turn out to be satisfied with that navy. The arguments which are adduced to support her position appear to point to the first alternative, for she pleads that the situation which she has helped to bring about in Manchuria, as well as her responsibility for maintaining the peace of Eastern Asia, have increased her obligations and that she requires greater strength to protect herself than before.

Actually, however, Japan has a high degree of security from naval attack by either Great Britain or the United States. The American or British fleets would have to steam several thousand miles from their nearest bases and would need to carry sufficient fuel for the return voyage in case they should not win the battle. The load of fuel which each ship must carry would thus be a great handicap (small cruisers could not undertake such a mission at all). In addition, any ship which was disabled would fall into the hands of the Japanese, for it would have no base to which to retreat. It would be a grave gamble for either the British or the American authorities to risk their naval power on the hope of success in one battle — a battle the strategy of which could be dictated by Japan, with her fleet securely based in familiar and well-fortified waters. But it may be that Japan fears a combination of Great Britain and the United States. In that case, however, an increase in her ratio would scarcely suffice. Even parity

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with each would not do. She would need preponderance; and one can suppose that there are Japanese admirals who would promise security only if her navy were as great as both the others put together. In case Japan's attitude proves to be dictated by questions of prestige rather than desire for preponderant naval strength, it has been suggested that a new treaty might be negotiated agreeing on categories without specifying exact ratios.

The Washington treaties worked well, at least until 1931, for the three principal Powers. Today, as they look forward to an extention of the arrangement or the negotiation of some other agreement, each feels that since 1922 its security has been diminished. Yet in fact these fears neutralize each other. Certain it is that the demand for a substantial change in the ratios by any one of the three would not meet with acceptance by the other two. Any such demand, in the light of the balance of power which now exists, would be interpreted as preparation for aggressive action. It is difficult to see how a breakdown of the negotiations on this issue could fail to result in a naval race. Such a race might also cause the United States to reconsider its abandonment of the Philippines. Expansion breeds on the theory of insecurity, as recent Japanese history shows. If nations cannot be made to feel secure by agreement, then, if they have the power, they seek it by increased armaments and expanding frontiers.

But it must be remembered that "security" is not only material but also psychological. No rule will be satisfactory, then, unless it gives each country what it feels it requires, not what others think it requires. For example, Americans may conclude that there is no logical basis for England's demand for a two-power naval standard in relation to Europe; or they may be unwilling to share Japan's view that she needs a larger naval ratio now than she accepted in 1922 and 1930 because since then her aggressive action in Manchuria has in effect increased her domain and the problem of protecting it. The fact remains that Britain feels she must take account of a possible combination of European Powers, and Japan feels the challenge of the other nations who opposed her action in Manchuria and discussed the imposition of sanctions against her. These are the considerations which will govern their policy. They make difficult the negotiation of a new naval treaty.

Despite the difficulties, however, is it not the part of wisdom to try to establish security for the countries in the Pacific by agree-

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ment rather than by preponderance of force? Concessions which may have to be made should be weighed against the burdens of a race in armaments and the attendant dangers to peace.

But it should not be inferred that the mere signing of another naval treaty by the Powers will of itself make them feel secure. People in all countries are coming to place less and less reliance on international agreements. Ultimately they may even conclude that it is futile to sign further treaties until there is more assurance that they will be observed. Assurance in this case should properly come from Japan, since it is she who has set aside international engagements when she found them irksome. There are responsible people in Great Britain and in the United States who feel that no more treaties should be entered into with Japan until she has devised an acceptable solution of the situation created by her violation of the Nine-Power Pact. They have no faith that Japan's purposes do not hold the threat of further aggression. They will need to be reassured on this point.

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THE UNIFICATION OF ARABIA

By Hans Kohn

MOHAMMED brought to the Arabic tribes of the desert, who had lived till then in a state of permanent feud and primitive paganism, the blessings of unity, political order and enlightenment. Under his leadership and that of his immediate successors, and under the impulse of a religious ideal, the Arabs of the desert for a short time held a position of the highest importance in the world's political arena. But the great Empire founded by Mohammed's successors grew much too fast and became much too vast for Arab cohesive and constructive forces. Very soon the Arabian peninsula — after having established a permanent ascendancy for the Arab language and civilization outside Arabia proper — relapsed into its primitive chaotic disorganization. Only after many centuries was it again awakened, this time by the religious impulse of Wahhabism.

A scion of the princely family which had embraced and propagated Wahhabism, Abdul Azis ibn Abdur Rahman, better known by the name of his family, Ibn Saud, has taken upon himself the task of organizing a stable and orderly government in Arabia and of transforming the unruly and illiterate nomads of the desert into citizens. He is striving, and with success, to divert the religious enthusiasm of his followers into modern social activity. Arabia has not only to organize, but also to enter the complex civilization which, having originated about two hundred years ago in Western Europe, is now on the way to becoming universal since the World War. At the beginning of the World War, Ibn Saud was still the Sheikh of Nejd, one of the major Sheikhs of Central Arabia but not more than that, unknown to and without any importance for the outside world or even the Arab world as a whole. Now, twenty years later, he is the undisputed lord over a strongly organized, united and cautiously but firmly modernized Arabia. The history of those twenty years has been no accident: long ago Ibn Saud conceived the scheme of a united Arab empire under his leadership, and the stage of fulfilment he has now reached represents for him only a transition to further achievements.

In 1914 four important Arab noble families could be considered as possible competitors for the hegemony of Arabia: the Hashi-

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mite Sherifs of Mecca; the Ibn Rashids in the northern part of the peninsula, with Haql as their capital; the Ibn Sauds in the Nejd; and the Imam of Yemen, who had successfully upheld his claims against the Turkish overlord. The first seeds of a new creed, of Arab nationalism in the modern sense, had just reached the secluded regions of Arabia and had stirred new thoughts and ambitions in the hearts of its princes. During many centuries Arabia had been a mere geographical name. In the nineteenth century a contest for the control of this vast territory set in between Great Britain, for whom it meant an important link on the road to India, and the Ottoman Empire, which, with its social and intellectual structure based on Islam, considered the possession of the Holy Places of Islam as the foremost title to its glory.

But Arabia itself had had no history and no consciousness of a common national destiny. Tribes fought against tribes, princes against princes, an up and down of individual and unrelated facts, meaningless except for the motives of momentary personal or tribal gains, without any general idea or ideal. Only in the twentieth century did things begin to change. The Arab princes began to act in the name of Arab nationalism; in the Arab provinces of the Ottoman Empire the forceful Turkish nationalism of the Young Turks evoked the national consciousness of the Arabs; frequent revolts followed, secret societies were formed and the coöperation of the different princes and local leaders was sought. Ibn Saud, who had returned at the beginning of the century from exile as a very young man, first strove to reëstablish the rule of his family in Nejd, the birthplace of Wahhabism, which had been conquered by the Ibn Rashids, and to rekindle the ardor of the puritan and militant faith of Wahhabism. But soon he turned to wider aims: to unite Arabia as it had been at the beginning of the nineteenth century under his Wahhabi ancestors. In 1913 he took possession of the Turkish province of El Hasa, a coast strip at the Persian Gulf; by this conquest he entered the orbit of immediate British interests and in the following year a British officer was dispatched to open negotiations with him. At that moment the World War broke out: its two important results, as far as Arabia is concerned, were on the one hand the elimination of Turkish rule from Arabia and the establishment of British control or influence over the land route to India, on the other hand the definite and unexpectedly strong

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crystallization of Arab national sentiment and consciousness. The Hashimite Sherif of Mecca, Hussein ibn Ali, had raised Arab national aspirations for freedom and unity from a world of dreams and hopes into the realm of political and diplomatic reality. His newly formed kingdom of the Hejaz was invited to sign the peace treaty of Versailles and to enter the League of Nations. He did not do it because the peace treaty had left Arab hopes unfulfilled and crippled.

Hussein ibn Ali, more than thirty years older than Ibn Saud, was a romantic conservative, full of the ancient wisdom and learning of the East and endowed with the rich imagination which mistakes rhetoric and dreams for reality. A direct descendant of the Prophet and head of the nobility of the Holy City, he wished to reëstablish the old glory of his race, faith and family by becoming King of the Arabs and Khalif of all Mohammedans. His fiery nationalism had induced him during the World War to rise against his overlord, the Ottoman Sultan, and his imagination led him to believe the vague promises of his wartime allies to whom the Arab army rendered conspicuous services by conquering Transjordan and Syria. Notwithstanding his disillusionment, he seemed in 1924 to have reached a new climax of his power. After the deposition of the last Turkish Khalif he proclaimed himself Khalif; his son Abdullah, an ambitious man of the old-time Oriental type, had become Ameer of Transjordan; his younger brother Feisal, different from his brother and equally outstanding by his character and intelligence, was King of Iraq, and negotiations were going on between Hussein and Great Britain about the formation of an Arab Federation including Hejaz, Transjordan and Iraq. But the same year marked the end of King Hussein's rule and ambitions. The British were glad to get rid of an ally who had become inopportune in his insistence upon their showing good faith; and Ibn Saud seized the opportunity to prove that he and not Hussein was the real leader and statesman of Arabia. The year 1924 was a decisive year in the history of Arabia. It marked the beginning of a new epoch: the active reëntry of the desert peninsula into world history, the effort of the nomad to adapt himself to the conditions of modern life and civilized society.

Before 1924 Ibn Saud had accomplished two important steps forward on his way: he had united Central Arabia by his victory over the Ibn Rashids, who since then live as virtual prisoners at

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his court, and he had introduced the most important reform ever undertaken in the desert: the settling of the nomad Arabs around the wells of the desert. His aim was to improve the economic and cultural situation of the nomad and to make possible a stable government, a permanent governmental structure. From time immemorial the desert nomads lived in the greatest poverty and illiteracy, in continuous insecurity and want. The transition from nomad to settled life means, however poor the condition of the settled Arab may seem to a Western observer, a distinct gain in security and in wealth. It gives the possibility of bringing him education and the elements of civilization in the proper sense of the word, the fundamentals of civic life. The settled colonies were founded around wells and springs, the soil was irrigated, the elements of agriculture taught, in the midst a mosque was built, the center of religious and social life and teaching. The higher Islamic Law, the Sheria, replaced the primitive tribal law. The nomad had always been Moslem in name more than in fact; his whole life was dominated by superstition and pre-Moslem traditions. The mosque became now a cultural center, imbuing the audiences with the spirit of a loyalty higher than that to the tribe. Those settled colonies became the backbone of Ibn Saud's army and the pivots of a stable government. Since time immemorial the desert had known only the passing power of personal leadership. The settled colonies could assure for the first time an objective and lasting order beyond tribal allegiance. The very foundations of nomad Arab society were radically transformed.

In the autumn of 1924 Ibn Saud's army moved against the Hejaz. His followers were chiefly driven by two traditional motives: the desire for booty and the religious fanaticism of the Wahhabi puritans against the Holy Cities with their relative luxury, corruption and deviation from the original faith. In that way their attitude resembled that of Protestant zealots of the seventeenth century against the Pope and Rome. Ibn Saud's aims and motives were different, but his great sense of statesmanship revealed itself again and again in his ability to make use of different situations and motives and at the same time to control and direct them. His victory proved easy enough, notwithstanding the opinion of European experts who (with the exception of H. St. J. B. Philby, war-time British envoy at Ibn Saud's capital) did not yet see in Ibn Saud the future Lord of Arabia. Within a few weeks Taif, the beautiful summer residence of the Meccan

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aristocracy, was taken, and then Mecca itself. In Taif the traditional massacre and looting followed. Ibn Saud was not present, but as soon as he arrived a sharp stop was put to all excesses of that kind and since then his nomad troops have behaved in an exemplary manner. Ibn Saud knew enough even to make his followers refrain from attacking what they considered unholy places and customs in Mecca. King Hussein abdicated in favor of his oldest son, Ali, and went into exile at Cyprus, where he lived almost forgotten for more than five years. Ali succeeded in holding Medina and Jidda (the port of Mecca) for more than a year. But the Wahhabis entered Jidda on December 16, 1925. Then Ibn Saud became the undisputed ruler of Hejaz and in Mecca, on January 8, 1926, added to his title of Sultan of Nejd that of King of Hejaz. A year later he changed his title to King of Hejaz and of Nejd and its dependencies.

King Ibn Saud's dominions now reached from the Persian Gulf to the Red Sea. The rival dynasties of the Ibn Rashids and the Hashimites ruled no more on the peninsula. To establish his complete hegemony there remained only one potential rival, the Imam Yehya of Yemen. In the cities in the Hejaz the Wahhabis had found a much higher developed urban civilization, in contact with all the centers of Mohammedan life; in the port of Jidda foreign consuls and merchants were established. A new outlook opened before Ibn Saud. And through his strong personality and his understanding of the essential currents of contemporary history a new Arabia was born. Before the Wahhabis had set out to capture Mecca a congress of the Ikhwan, the Wahhabi brotherhood, had justified the conquest by an appeal to the Arab nation, explaining Ibn Saud's desire to attain and to secure the complete freedom and unity of all Arab lands. But at the same time he had appealed to pan-Islamic sentiments and to the interest of all the faithful to have the Holy Places administered in an exemplary way. This appeal had brought him the support of the leaders of Indian Islam.

As soon as he was firmly established in the Hejaz, Ibn Saud convoked a Pan-Islamic Conference which assembled in Mecca in June 1926. In his declarations at the Conference he justified his attack against King Hussein by his wish to purify the cradle of Islam from all the iniquities and corruption of Hashimite rule. At the beginning of his expedition against the Hejaz, he had declared himself an agent of Islam to deliver the Holy Land from

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oppression and to leave it to the Mohammedans to decide about the future fate of the country. But, the conquest once accomplished, the situation had changed. Ibn Saud had become King of the Hejaz and was ordering its administration in accordance with his own ideas. He expected from the Pan-Islamic Conference only advice and help in facilitating and improving the pilgrim traffic in the Holy Land. The Conference, based on misunderstanding, ended without definite result. Originally intended to be the first of consecutive yearly conferences, it was never repeated. The Indian Moslems left it dissatisfied. Ibn Saud is a pious Moslem, but he is far from being narrow-minded and fanatic, and the dominant idea of his life never was Pan-Islamism; from the beginning he has been an ardent Arab nationalist. It was therefore easy for him after the failure of the Pan-Islamic Conference to devote all his attention to the problems of his kingdom and of the Arab nation as a whole. In his intention the Conference had to serve only one purpose: to strengthen the position of Arabia as the cradle of the faith and to encourage the pilgrimage, the main source of the economic life of the Hejaz. He had expected financial assistance for the construction of railways in the Hejaz to connect Mecca with Medina, and both cities with their ports, the towns of Jidda and Yanbo; and political assistance against Great Britain to force it to return to the Hejaz the district of Maan and Aqaba (which England had annexed in 1925 to Transjordan) and to restore the Hejaz railway which connected Medina with Damascus. But all those hopes remained unfulfilled. Ibn Saud became convinced that he had to rely only upon his own forces and those of the Arabs, however poor and backward they might be. His future task was set before him: to build a modern Arab nation.

Ibn Saud's easiest task, comparatively speaking, was the diplomatic consolidation of his new position. For the first time two Wahhabi princes left the peninsula, Ibn Saud's oldest son, Saud, to visit Egypt, and his second son, Feisal, to visit England, Holland and France. The first Great Power to recognize the new kingdom was Soviet Russia — which was in accordance with Russia's traditional Eastern policy. Other states followed, and the consulates at Jidda were raised to the dignity of legations. Ibn Saud's relations with Great Britain were regulated by the Treaty of Jidda, concluded in May 1927 between Sir Gilbert Clayton as British envoy and Ibn Saud's son, Feisal. By this

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treaty the complete independence of Ibn Saud's dominion in all external and internal matters was recognized. Great Britain also raised the embargo on the supply of arms and ammunitions through the Red Sea which had existed up to then and which had been partly responsible for the military weakness of King Hussein of Hejaz. All the relations of Ibn Saud with the outer world were concentrated in Mecca and Jidda, where his son Feisal acted as viceroy and governor of the Hejaz. Modern forms of life and festivals entirely unknown in the desert developed under the growing impact of Western civilization. The anniversary of Ibn Saud's accession to the throne of Hejaz was solemnly celebrated every year by a military parade followed by a banquet. In the year 1933 Ibn Saud abolished the dual kingdom of Hejaz and Nejd and gave it a new name: it is to be known in the future as Saudi Arabia, and according to Ibn Saud's intention is the cradle of future united Arabia. But much more difficult than this outward consolidation proved the inner consolidation of the vast kingdom which stretched across the whole of Arabia from the Persian Gulf to the Red Sea.

Ibn Saud's greatest achievement consisted in bringing peace and security to the desert. Within a few months he had established complete order among the unruly tribes of the Hejaz. All over the desert feuds and robbery ceased. That meant not merely a success of the magic spell exercised by the King's strong personality. The nomad society of the desert is in a state of transformation. The economic existence of the nomad was until recently based chiefly on two sources: on the booty taken from caravans and hostile tribes, and on the income derived from the breeding and selling of animals, especially camels. The first source of income is being destroyed by ordered government; the second is being curtailed and slowly destroyed by the intrusion of mechanical civilization and means of transport, by the replacement of the camel by the motorcar. Only a short time ago the nomad could resist any efforts of ordered government as an equal; armies were not his superiors in armament and equipment and were certainly his inferiors in mobility and adaptability to the ways of desert warfare. Government today has at its disposal wireless and airplanes and other devices against which the nomad is powerless. On the other hand, the introduction of modern technical innovations makes possible for the first time the imposition of stable and permanent government. The motor-

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car since the World War has conquered every part of the earth. In 1924 there were in the Hejaz only three cars, all owned by the government. Ibn Saud introduced cars to facilitate the pilgrim traffic, and after a few years there were 1,500 motorcars in the Hejaz. But the car did not stop there—it penetrated into the interior and crossed the peninsula from the Red Sea to the Persian Gulf. The royal procession travelled in cars from Mecca to Riyadh, Ibn Saud's original capital in the Nejd. A motor car road is now being surveyed by the Iraqi and the Saudi Governments between Baghdad and Mecca to convey the pilgrims from India and Persia by this new quick way to the Holy Places. The Egyptian Misr airline carries pilgrims from Egypt within a few hours to Jidda, so that the whole pilgrimage which formerly took many weeks can be accomplished with the help of airplane and car in three days. In all probability in a few years there will be regular air connections between Saudi Arabia, Egypt and Iraq.

By introducing modern technical elements Ibn Saud tried to create new bases of economic life for the nomad and at the same time to stabilize and perpetuate his government. But for the same reasons his orthodox Wahhabi followers revolted against the reforms. These zealots of the desert had helped Ibn Saud build up his empire, they had fought for the puritan primitiveness of the desert and their desert faith, they hated cars, wireless and airplanes as inventions of the devil, as anti-religious witchcraft not foreseen by Mohammed and his companions. They were afraid of the new form of government which Ibn Saud wished to introduce with the help of modern machinery and which meant to them the end of the liberty and life of the desert as it had existed since time immemorial and as they had trusted that it would go on forever. Ibn Saud took the precaution of having the Ulemas of the Nedj, the learned men of the faith, assembled in Riyadh and having them declare the new machines as compatible with and allowed by Islam. But the old warriors, Ibn Saud's most faithful companions in the time of his rise to power, could not reconcile themselves to the new spirit. Ibn Saud understood that the principles of desert Wahhabism which had helped him to build his empire were in no way sufficient to consolidate and to rule that empire. Necessarily, the men who in the time of the conquest played the leading rôle had to be relegated to second place in the time of construction. The unrest created by this situation lasted for about three years. Ibn Saud showed here one of his

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most conspicuous virtues — patience and forbearance, a wise magnanimity and an astonishing lack of savagery unlike many other great national leaders of our time. Again and again he tried to win over his opponents, led by Feisal ud Dawish; until finally he defeated them in a decisive battle in the Batin valley at the close of 1930. His rule had weathered successfully its most difficult trial. It was much easier for him to master a second revolt two years later, instigated from the outside and swept from Transjordania and the Sinai peninsula into the northern Hejaz. All hopes put by Ibn Saud's enemies on the disintegration of his kingdom by the old methods of the desert proved vain; his administration was different from any Arabia had known, and stronger.

Under Ibn Saud's guidance, the new wave of Wahhabi conquest is changing the nature of Wahhabism. Wahhabism is becoming flexible and adaptable to modern conditions. Ibn Saud teaches his Wahhabis moderation alike towards non-Wahhabi Moslems and non-Moslems. He has shown that he understands different levels of civilization and their requirements by separating the administration of the Hejaz from the administration of the much more primitive Nejd. He has given a constitution to the Hejaz. He has laid the bases of modern education, has invited Arabs from the more progressive parts of the Arab lands to fill important posts in his administration, and has sent students from his lands to study abroad. He conducts negotiations with foreign capitalists, preferably Moslem capitalists, for the opening of a state bank, for the construction of railways, for the granting of concessions for the exploitation of the mineral resources of his country, for the supply of electric power outside the two or three cities which possess it already. The pilgrim traffic has been put on a wholly different footing, extortions have ceased, prices are fixed for all services, good drinking water is provided, hospitals have been erected and hotels created. Ten years ago the Hejaz lived still the traditional life of the ages with its slow flow and its sweet charm, with its easiness, corruption and disorder. In the last ten years all is changed. And the ten years have been only a beginning, undertaken against all the odds and obstacles presented by the terrible poverty of the desert and the backwardness of its inhabitants. Now, once the foundations have been laid, progress can become much quicker in the second decade. This opened in the spring of 1934 by a new proof of Ibn Saud's out-

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standing statesmanship and military ability, given in his war against the Imam Yehya of Yemen.

From the beginning of his career Ibn Saud wished to achieve the independence and unity of all Arab lands. He realized — as today all Arab leaders do — that the poverty and backwardness of the Arabs can be overcome only by a pooling of all their strength and resources in a common effort towards progress and liberty. The peninsula cannot be modernized and arrive at a higher standard of life without the aid of the more civilized Arab regions on the Mediterranean coast, which also form the gateway for contact and exchange between Arabia and Europe. On the other hand, the Arabian desert alone preserves the real strength of the Arab race and will continue to supply the moral backbone and the political leadership of the united movement. The situation is very similar to that presented in the first part of the last century to Italian patriots: a partition of Italy between different dynasties and outside imperialist Powers, and a great divergence in the cultural and economic levels of the different parts of the country.

Ibn Saud's nationalism kept clear of all the pathetic rhetorics which are very often characteristic of Oriental nationalism and which replace strength and work by lyric sentimentality. In that he much resembles the other great king whom the Arab race has produced since the World War, King Feisal of Iraq, who like Ibn Saud was a son of the desert. Both were *Realpolitiker* who, in entirely different surroundings, had the European ability of working patiently, step for step, for the attainment of a far-off goal. There existed between the two dynasties a natural rivalry for the Arab leadership. Ibn Saud's victory over King Hussein has settled the question as far as the peninsula is concerned; but for those Arab lands which were mandated territories of the "A" category, the wise policy of King Feisal (which in 1932 achieved the complete independence of Iraq as a member of the League of Nations) made Baghdad the center of all hopes. Even after King Feisal's premature death the Arabs of Syria, Palestine, Transjordan and Iraq continue to look upon Feisal's young son and successor, King Ghazee, as the rallying point of the northern Arabs, who at a later date and by ways unknown at present will unite with themselves the Arabs of the peninsula.

Since establishing his hegemony over the peninsula, King Ibn Saud has pursued a policy aiming at the achievement of Arab

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union by a federation of Arab lands and princes under his leadership. In February 1930 he met King Feisal, and this meeting was soon followed by a treaty of friendship. It was more difficult to establish friendly relations with the ambitious Ameer Abdullah of Transjordan, but even in this case a treaty of friendship was signed in 1932. The important land of Asir south of the Hejaz was incorporated into Saudi Arabia in 1930, after being a protectorate for four years. The possession of Asir made Ibn Saud an immediate neighbor of the Imam Yehya, the King of Yemen. The Yemen, the *Arabia Felix* of the Romans, is the most fertile and most densely populated part of the peninsula, the winds of the Indian Ocean providing abundant rains. Imam Yehya is the head of a Shiite sect, the Zaidis, a most secluded and fanatical sect, hated and considered heretics by the Sunnis. The Imam is held a saint by his followers and rules as a theocrat. He is a powerful personality, but an entirely mediæval man, full of distrust against everybody and against all innovations, fanatical as a Moslem, and ambitious to extend the frontiers of his kingdom all over southern Arabia. During many years he followed with misgivings Ibn Saud's ascent to power. It was only due to Ibn Saud's forbearance that no clash between the two rulers occurred.

Imam Yehya claimed a number of frontier districts between Yemen and Saudi Arabia and supported the revolt of their inhabitants against Ibn Saud. After long negotiations, Ibn Saud was forced in the spring of 1934 to direct his army to reoccupy those parts of his kingdom which the Imam had occupied. Some European observers have wished to explain the armed conflict as a conflict between British and Italian policy in Arabia. They saw in Ibn Saud a British ally and in the Imam an Italian. There do actually exist treaties of friendship between Great Britain and Ibn Saud, and since September 1926 between Italy and Yemen; but no direct influence is exerted by Great Britain on Ibn Saud's policy, and the treaty of friendship between Italy and Yemen has in no way justified the hopes which Italy may perhaps have put in it. Italian influence and trade have not penetrated into the Yemen and the rivalry between the two rulers is in no way caused or fostered by the rivalry of the two European states.

The Imam had taken great care to reorganize his army with the help of Turkish officers and to supply it with modern equipment and arms. But the short war between Ibn Saud and the Yemen

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proved sufficiently that in the generally backward state of the Yemen and under its theocratic ruler an army cannot be imbued with the spirit to make it a match for Ibn Saud's warriors. In an astonishingly quick time Ibn Saud's troops under the command of his sons occupied both the disputed highlands and the coastal plain of the Yemen, and became masters of Hodeida, the most important port of Yemen. Ibn Saud's officials and police arrived a few days after the capture of the city, and the new administration worked smoothly. The way to Sana, the Imam's capital high up in the mountains, was now open for Ibn Saud's further victorious advance.

The whole Arab world had followed with the greatest attention the war between the two Arab princes. The World Moslem Congress of Jerusalem, which after its session in December 1931 had elected a permanent executive committee, sent a delegation to Mecca to help bring about peace. The president of the delegation was the Mufti of Jerusalem, Mohammed Ameen el Husseini, the president of the Supreme Moslem Council of Palestine; the other members were Mohammed Ali Allubah Pacha, a former minister of Egypt, Ameer Shekib Arslan, the chief of the Syrian delegation at Geneva, and Hashim Bey el Athasi, the foremost nationalist leader of Syria. The dispatch of this very representative delegation to the belligerents was an entirely new departure in Arab politics and bore witness to the feeling of solidarity and unity in all Arab lands. In June 1934 peace was concluded at Taif, the famous oasis and summer resort near Mecca. Ibn Saud renounced all his conquests of undisputed Yemeni territory. The treaty was meant to strengthen Arab unity. It was therefore called in the preamble a "treaty of Moslem and Arab brotherhood, to promote the unity of the Arab nation, to enhance its position and to maintain its dignity and independence." Both parties declared "that their nations are one and agree to consider each other's interests as their own." The foreign policy of both kingdoms will be brought into line and harmonized so that both countries will act as one country in foreign affairs. Practically, it will mean a protectorate over the Yemen by Ibn Saud, the stronger and much more progressive partner. To underline the Pan-Arab importance and intention of the treaty it was published simultaneously in the capitals of the two belligerents, in Mecca and Sana, and in two other important centers of Arab political life, in Damascus and Cairo.

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The desire, expressed in the treaty, "to form a united front against any attack on the Arabian peninsula" marks a distinct and what would ten years ago have seemed an almost incredible progress in Arab national consciousness. Only a few years ago both sides, the Wahhabis and the Zaidis, were regarded as moved only by the strongest sort of sectarian spirit and as alien to any broad national notions. Now the tribal and sectarian spirit has given way to a new consciousness. This is largely Ibn Saud's work. The peace treaty of Taif of June 1934 marks the definite entrance of Arabia into a new epoch of its modern history, a history which had begun ten years before with the capture of Taif by Ibn Saud's desert warriors.

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THE ECONOMIC CONSEQUENCES OF THE PEACE

By Sir Josiah Stamp

THE ECONOMIC CONSEQUENCES OF THE PEACE, by JOHN MAYNARD KEYNES. London: Macmillan, 1919. New York: Harcourt, 1920.

I HAVE a vivid recollection of walking up Whitehall in the early summer of 1919, when we were all tired of reading the tiny daily increments of news and views in the papers concerning the proceedings at Versailles, and getting confirmation of the rumor that the economists had been having a bad time in Paris trying to hold within the bounds of reason the politicians and eminent lawyers who were in the inner circles of settlement. Either the economists in that circle were too few to count, or else they were at fault in not bringing into the fray, if they could, the array of eminent supporters who were kicking their heels outside. Surely such a display of consolidated *expertise* would have impressed, where the single skirmisher would be bundled aside. No one can ever know whether additions to the prophets would have made prophecy more acceptable in that strange uprush of combatant concession to mass psychology on "paying for the war," and "what Germany would have done if she had won." Waiting while a slow witness at the Royal Commission on Income Tax thought of his answer, Professor Pigou gossiped to me that Maynard Keynes was giving up in Paris in sheer despair, and that he was producing a book which would startle the Powers in its self-vindication and its pictures of personality. Indeed, to this day, there are apocryphal stories of sentences in the manuscript that were even more biting than those that ultimately survived and which the earnest persuasion of friends alone prevailed on the author to remove from his manuscript. To this day there will be those who think that publication was not a "right" thing to do — not quite nice for a civil servant — while others think the end, if

Editor's Note. This is the second of a series of several articles examining, in the light of experience and later knowledge, some of the problems with which the world was wrestling a few years ago and some of the outstanding books written at the time. The first article, "Things Not Foreseen at Paris," by Arnold J. Toynbee, based on "A History of the Peace Conference at Paris," edited by H. W. V. Temperley, was published in the April 1934 issue.

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sufficiently serious, justifies the means; many who just "wait and see," and if the prophet turns out right, then what he did was right *ab initio* — a relativity of moral sense in terms of time, which means that if we are to wait to see which way the cat jumps, she must learn very long jumps.

"The Economic Consequences of the Peace" appeared early in December 1919. It at once raised a storm of comment from three main directions. Most vocal were those who criticized the author's departure from the "good form" of the Civil Service. Next came those who found in the famous Chapter III, with its descriptions of the chief *dramatis personæ* of the Conference and of its working, one of the most arresting pieces of writing of modern times, which will probably be quoted in generations when reparations are forgotten. But the third were those who hated the prophecies, and dreaded the ills of their fulfilment. For fifteen years now these fulfilments have been unrolled with the majesty of doom.

Maynard Keynes was not a prophet, wholly aloof from his fellow economists, whose prowess as an exception proved the rule of their general ineptitude. He was fearless and expert in the subject, and best qualified to lead in expressing views held by many with varying degrees of clarity or wealth of evidence and, confirming as he did their latent ideas, he had immediately a solid following of his own kind.

Every economist who knew the meaning of international trade, knew that reparations could only be paid by gold or goods and services, and not in some mysterious "money;" knew that a "balance of trade" of this order was not easily conjured *out* of an industrial country into countries equally or similarly industrial. If this large principle was known, the rest of the story of the prophecy of woe was detail. But it was by the detail and the rate of its unrolling in point of time that the prophet would be judged. Many years would be needed to convince the unwilling nations that things so desirable and so just were not also economic.

Those who could not challenge his economics found fault with his politics. The *Spectator* said: "The world is not governed by economical forces alone, and we do not blame the statesmen at Paris for declining to be guided by Mr. Keynes, if he gave them such political advice as he sets forth in his book." The *Times* said it was "an extremely 'clever' book" — note the distinctive apostrophes — but that it was "the cry of an academic mind, ac-

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customed to deal with the abstractions of that largely metaphysical exercise known as political economy in revolt against the facts and forces of actual political existence." His most striking characteristic was "political inexperience. He believes it would have been wise and just to demand from Germany payment of £2,000,000,000 in final settlement of all claims." Even by April 1920 its *Literary Supplement* reëchoed this: "Exhibits every kind of ability except the political kind, which is the science of discovery and the art of accomplishing the practicable in public affairs" — though the *Daily News* in December had declared that "he prophesied the result and the reality is crowding hard upon his prophecy."

One may distinguish political from economic wisdom by saying that the latter will and must ultimately prevail, but that it is too hard and unpalatable for a world that will not "come off" its wishes until relentlessly pulled by the force of events. It may be political "wisdom" to flatter the public mind with slightly weaker and weaker doses of what it likes and slightly stronger and stronger doses of what it will have to get used to. It is amazing what a lot of people think they "knew it all along." If that be the sense of political wisdom, then Keynes's book wholly lacked it. Some members of the Dawes Commission, and even of the Young Commission, knew that they *had* to go through such stages of partial disillusionment and such ultimate make-believe as would achieve the political object of the moment, and make possible the next stage of agreement, which alone made progress *towards* the ultimate solution. Complete economic candor such as Keynes's would have made havoc, and no names were more condemned in "correct" circles in Paris in 1924 during the Dawes discussions than those of Keynes and Moulton. "Telling the truth to people who misunderstand you is equivalent to promoting falsehood," said the "Dolly Dialogues." Must the economist be dubbed "unpractical" because he propounds what alone is practicable, ultimately, and the politician called "practical" because he propounds what is completely unpracticable ultimately?

The *Nation*, *Westminster Gazette*, *Sunday Chronicle*, *Athenaeum*, *Fortnightly Review*, all recognized at once the authentic and masterly, and freely welcomed it. The general instructed chorus in America was with Keynes — a strange comment on after history, when as soon as the dilemma of international trade was to strike at their own contentions on international debts, the great

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American public were to remain as obscurantist and invincibly blind as any nation could well be without any lesson from history at all. The economists — Taussig, Allyn Young, Dennis Robertson — all made early acknowledgment of their agreement with the central position.

The main burden of the first book was the prophecy that, when evaluated, the treaty claims for reparations would lie between £6,400,000,000 and £8,800,000,000 and that £2,000,000,000 would be the limit of Germany's capacity in the long run. Keynes showed that the literal interpretation meant:

a. £1,000,000,000 down by May 1921.

b. £2,000,000,000 in bonds etc., so that in all £3,000,000,000 would be found by that date. Interest being 2½ percent till 1925, and 5 percent plus 1 percent for amortization thereafter, that meant £180,000,000 per annum.

c. As soon as possible another £2,000,000,000 in bonds was to be issued, bringing the annual payment up to £280,000,000.

d. Further bonds were to be issued for the balance of the totals due. On Keynes's assumption of a total of £8,000,000,000 this would raise the annual charge to £430,000,000.

e. Interest was to be debited as from May 1921 on the outstanding debt. On the assumption that Germany could not pay more than £150,000,000 per annum till 1936, she would have to pay £650,000,000 per annum after 1936 to keep pace with interest alone, and any year in which she failed in this would increase the capital debt. To discharge the whole debt in 48 years from the Armistice would bring the annual charge up to £780,000,000.

This result was, of course, trounced by Keynes in the severest fashion as fabulously impossible, and the political effects of the attempt to extract it were plainly set out.

In the result, the Reparation Commission did the sum set by the treaty, and assessed the total due. The "claims" made by the Powers affected had amounted to £11,600,000,000 but the Reparation Commission's total was £6,600,000,000 — very near to the lower limit set by Keynes.[1] This assessment did not refer to "ability to pay" but was a computation of legal liability; and the task of determining Germany's annual contribution towards it began its painful and fatuous history. The total of £6,600,000,000 remained theoretically due until modified by the Young

[1] To quote his own words at a later date ("A Revision of the Treaty," 1922): "Allied Finance Ministers had foreshadowed 300 milliard gold marks; at the time of the Decisions of Paris, responsible opinion expected 160–200 milliards, and the author of 'The Economic Consequences of the Peace' had suffered widespread calumny for fixing on the figure of 137 milliards (exclusive of sums due in repayment of war loans made to Belgium), as being the nearest estimate he could make. The public, and the Government also, were, therefore, taken by surprise when the Reparation Commission announced that they unanimously assessed the figure at 132 milliards."

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Plan in 1929. Keynes's main positive statement after detailed computation was that Germany *might* improve her trade balance so as to have £100,000,000 available for payment of reparations.

"Having regard to the political, social, and human factors, as well as the purely economic, I doubt if Germany could be made to pay this sum annually over a period of 30 years; but it would not be foolish to assert or to hope that she could. Such a figure, allowing 5 percent for interest and 1 percent for repayment of capital, represents a capital sum having a present value of about £1,700,000,000. I reach, therefore, the final conclusion that, including all methods of payment — immediately transferable wealth, ceded property, and an annual tribute — £2,000,000,000 is a safe maximum figure of Germany's capacity to pay. In all the actual circumstances, I do not believe that she can pay as much." A figure of this order had been computed much more roughly by other British and American economists as reasonably possible — but all non-economists gave much higher figures by the process of "thinking of a number," thinking of their own needs, or confusing "capital wealth" with transferable wealth. Keynes allowed for changes in his estimate if German labor was transported to devastated areas, if her industries were specially nursed for some years (without reparations) by loans; if gold changed in value; and if there were revolutionary changes in nature's yield to man's labor. He declared that a capacity of even £5,000,000,000 was "not within the limits of reasonable possibility. It is for those who believe that Germany can make an annual payment amounting to hundreds of millions sterling to say *in what specific* commodities they intend the payment to be made and in *what markets* the goods are to be sold."

In the complicated series of proposals continually modified from 1920 to 1924 for extracting as much as possible from Germany towards the assessed liability, they began with £100,000,000 plus 26 percent of German exports, and finished with an issue of A and B bonds amounting to £2,500,000,000, with ghostly C bonds to be made effective some day for the balance. In the Dawes Plan in 1924 provision was made for a standard annuity of £125,000,000 with a possible supplement computed on an index of prosperity. Obviously the annuity was just enough to meet the A and B bonds' interest, without any contribution of repayment. The theory of the total £6,600,000,000, to be discharged some day, still remained uncancelled, and the only theoretical

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possibility of its discharge lay in the substantial growth of the supplement through increasing German prosperity. There was no technical reduction of the total for there was no limit of time to the Dawes annuities save the ultimate discharge of the total. But in the Young Report, in 1929, a time limit and an exact schedule of definitive payments gave a "present value" totalling about £200,000,000, which cancelled the old £6,600,000,000 and came within Keynes's limits (ignoring sums already paid). Even this, however, had much less reference to Germany's own capacity to pay than to the creditors' minimum requirements for their own outpayments and expenses.

Thus in ten years the world came to the conclusion that Keynes had not been far out. But shortly it was to outdo him when it recognized that even this settlement was impossible. It is fair to argue that but for the excessive pressure on, and exhaustion of, Germany in the early stages, but for the impoverishment due to the Ruhr incidents and inflation, and but for growing nationalism elsewhere making exports difficult to increase, £100,000,000 per annum would have been a feasible sum, and I believe that Keynes was right *on the conditions of 1919*. But even without these hindrances, the great world slump of 1929–1933 would have put an effective end to this estimate.

Keynes himself described later the main contentions of "The Economic Consequences of the Peace:"

1. The claims against Germany which the Allies were contemplating were impossible of payment.
2. The attempt to enforce these claims might ruin everyone.
3. The money cost of the damage in France and Belgium had been exaggerated.
4. The inclusion of pensions and allowances was a breach of faith.
5. The *legitimate* claim against Germany was within her capacity to pay.

The first was demonstrated in a few months; the second in four years; the fourth was non-economic. The fifth was only feasible if the second never came into play, and if every circumstance of assistance were favorable. Keynes never realized the extent of the political *impasse* that would arise. The third contention, the extent of the damage, was reëxamined by him in the "Revision of the Treaty." The French claims during the first two years rose from 65 milliard francs to 134 milliards. The actual claim submitted was 127 milliard francs. The puzzle of giving this a gold franc value was tackled, and it became 57.7 milliard gold marks

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(£2,886,000,000). Keynes called this "fantastic." His detailed estimates came to not more than *one-third* of this total. The Reparation Commission's findings broadly confirmed the more conservative estimate — 30 milliards for direct damage to property.

When Keynes wrote his sequel, or continuation, "A Revision of the Treaty," the definitive scheme of reparations, published in May 1921, had been in force for six months. He said at once, "It will not endure." But it was the *fait accompli* of the hour and he had to subject it to the same patient examination. The elaborate machinery of A bonds and B bonds (a total of £2,500,000,000), with provisional C bonds, was set up. "It is probable that, sooner or later, the C bonds at any rate will be not only postponed, but cancelled." The whole scheme of quarterly payments (£100,000,000 a year and 26 percent of the value of exports), although an abatement of the Treaty, was "like all its predecessors, a temporary measure, bound to need amendment." When Keynes first gave 2 milliards of gold marks per annum, M. Klotz was forecasting 18 milliards in the French Chamber — a considerable drop from Lord Cunliffe's general election figure a year earlier, 28.8 milliards.

The Reparation Commission, eighteen months after, reached 8.28 milliards, and two months later the London Settlement was 4.6 milliards. The British and French Ministers had come down from 10.8 milliards to this figure in two years. Keynes held on to 2 milliards. He showed that imports would have to amount to an unprecedented figure, double their best level, without any rise in imports, to achieve the required annuity. Against this, Germany's need was for more and more imports. A scale of payments was arranged for the early period, but the instalment of August 31, 1921, was only paid out of accumulated foreign balances and temporary advances. November 1921 was covered by the delivery of coal and material. Keynes thought January and February 1922 might be covered by deliveries and advances, but that April 1922 would present more difficulty.

The Conference of London wiped out the impossible liability under which Germany lay of paying a balance of £600,000,000 (gold) due under the Treaty on May 1, 1921.

Keynes said that in the "second ultimatum" of London the Allies were no longer in fanatical mood. He hoped, therefore, that Germany would accept the notification of the Allies and do

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her best to obey it, "trusting that the whole world is not unreasonable and unjust, that Time is a healer and an illuminator, and that we had still to wait a little before Europe and the United States could accomplish in wisdom and mercy the economic settlement of the war."

After examining the budget problem against the declining mark (only just beginning its tremendous career of inflation), and the burden on the total income, he concluded that the London Settlement gave a breathing space to the end of 1921, but could be "no more permanent than its predecessors." He foresaw with great accuracy that a real attempt to pay in goods would arouse protectionist sentiment and cries of "Germany's attempt to ruin trade with nefarious competition."

Keynes diagnosed the reasons for the fall in the value of the mark, and declared that a serious attempt to meet reparations demands would cause a big currency inflation, and a redistribution of wealth amounting to a social catastrophe. He spoke also of a financial catastrophe, and even of a rate of exchange exceeding 1,000 marks to the pound, reducing the real burden of the public debt to very moderate dimensions. But even he failed to realize how much *further* than all this the situation would develop, and the tragic scale of the disaster.

The question of coal loomed large in the original ideas of reparations. Coal was a form of payment Germany could easily make, but it had important effects on her own internal economic welfare. The Treaty provided for a delivery of about 40,000,000 tons per annum, with many complicated details which lent themselves to much debate. Keynes said flatly that this was impossible, and gave good economic reasons for the conclusion.

The complicated totals were soon forced under revision. Up to the middle of 1921 practically the whole of Germany's reparations were paid in coal, and yet in the first quarter the Reparation Commission reduced the demand to 1,660,000 tons per month, and then to 1,500,000 (when actual delivery proved to be 770,000 tons per month). From August 1920, 2 million tons per month were expected, but *against* a return payment (or loan) for miners' food! Germany got cash at about 40 shillings per ton for those deliveries. As a matter of fact, even the restricted deliveries seriously incommoded the recipients.

It is perhaps too meticulous at this date to go into stale controversies about the minutiæ of Keynes's coal estimates; but he

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revised the figures himself and substantiated the greater part even of the details. Of course, his main position was incontrovertible.

In August 1921 he published the prediction that some time between February and August 1922, Germany would succumb to an inevitable default. He repeated this in December 1921. "This is the maximum extent of our breathing space." In December 1921 the German Government notified the Reparation Commission that having failed to secure a foreign loan, they could not find, apart from deliveries in kind, more than 150 or 200 million gold marks towards the February 1922 instalment. Conferences in January 1922 had to prescribe a moratorium. In August, after Germany had asked for a moratorium of two and a half years, cash payments were suspended by agreement and bills at six months were accepted. Then follows a long story of revisions up to the time the French occupied the Ruhr and the disintegration of Germany's economic life was complete until the rescue of the Dawes Plan.

There may be those who will urge that all this was "dead easy" — those who, having seen "how it's done" imagine that a wizard has no skill — those who deceive themselves by reading their present or recently-won insight back into their past attitude. Others will urge that Keynes has not always been so happy in his opportunity, and that attempts at prophecy in other directions do not justify the economist as seer or even as diagnostician. He speaks for himself in "Essays in Persuasion." I am content to judge "The Economic Consequences of the Peace" and its sequel by the fact that it was written against the full tide of popular political and even instructed opinion, was regarded as "reckless," academic, or unwarrantable at the time, but has since justified its author, not only in its broad conclusions, not only in the greater part of its detail, but also in the action and the occasion of its writing.

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THE EVOLUTION OF SOVIET TERRORISM

By William Henry Chamberlin

THE reorganization of the Soviet political police, the OGPU, and its virtual transformation into a Commissariat for Internal Affairs which does not possess the right to pronounce summary death sentences, marks a second important stage in the evolution of the terrorism which has been a consistent feature of Soviet administrative practice. The first stage was in 1922, when the Cheka, or Extraordinary Commission for Combating Counter-revolution, was reorganized as the OGPU. A strong element of continuity is noticeable in both these changes. Felix Dzerzhinsky, the original head of the Cheka, remained head of the OGPU until his death in 1926, when he was succeeded by another Pole, Menzhinsky, who died in the spring of 1934. Both the head of the new Commissariat for Internal Affairs, Heinrich Yagoda, and his two assistants, Agranov and Prokofiev, are veteran Chekists; and the Soviet newspaper *Komsomolskaya Pravda* sees in this fact a desirable proof that the spirit of the Cheka will continue to prevail and that there will be no relaxation of the struggle against "class enemies."

The functions of the Commissariat for Internal Affairs are also strikingly similar to those of the OGPU. It retains control of border defense, of the ordinary police and of the numerous forced-labor camps which have grown up in Russia in recent years. It also possesses the less formidable functions of supervising fire prevention and the registration of marriages and divorces. Attached to the Commissariat is a special commission (*osoboe soveschanie*) which has the right to exile persons from the country or to sentence them to terms of confinement, up to five years, in prisons or in labor camps "administratively," *i.e.* without any court trial. This indicates that there will be no lack of conscripted "class enemies" for the digging of canals and for other rough tasks where large supplies of cheap labor are appreciated.

All these similarities between the functions of the OGPU and of its successor lend some point to the cynical remark of a foreign resident of Moscow when rumors of an impending reorganization and renaming of the OGPU began to circulate in Moscow last spring: "It's like changing the name of a dog with a bad reputation

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for biting people in the hope that people will forget it's the same animal."

At the same time the withdrawal from the Commissariat for Internal Affairs of the right to pronounce summary death sentences and the fact that no apparent provision is made for transferring to the Commissariat the special regiments which were under the control of the OGPU are developments of genuine importance. The wings of the OGPU have been clipped. The new Commissariat will still be an agency of terrorism, endowed with summary punitive powers which would be unthinkable in a democratic country. But it will not be quite the old OGPU, just as that organ, even at the height of its virtually uncontrolled power, never equalled the Cheka in the number of its executions.

Several circumstances seem to have contributed to the curbing of the OGPU. First of all, the Soviet authorities are convinced that the satisfactory harvest of 1933 and the subsequent improvement in the supply of the towns with food and manufactured goods marked a definite turn for the better in the prolonged crisis which the Soviet Union has been experiencing since the inauguration of the first Five Year Plan. With the resistance of the peasant to collective farming broken (not least through the huge state-organized famine of 1932–1933), and with more foodstuffs and goods on the long depleted shelves of the coöperative stores, it seemed that the need for extraordinary methods of repression, which smacked strongly of martial law, had passed.

Then, too, the OGPU, despite the fact that the *Pravda* assures us that it was "surrounded with the warm love of tens of millions of workers and peasants," had acquired an extremely bad reputation in the outside world. Thanks to the secrecy with which its operations were cloaked, and in consequence of Russia's abundance of inaccessible and almost unknown places of banishment and the severe Soviet censorship, the full truth about the decimation of the Russian intelligentsia and of a considerable part of the peasants through all these years may never be known. But enough facts did leak out to convince the public opinion of the world that the OGPU was a sheer terrorist organization, rather than an ordinary political police. The charges of "sabotage" which it gave as excuse for its frequent wholesale arrests inspired little credence, especially after the curious piece of bad luck which attended the most elaborately staged of all the sabotage trials, that of the so-called "Industrial Party." For Professor Leonid

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Ramzin, who obediently turned state's evidence and incriminated himself and his colleagues in all sorts of treasonable and sabotage activities, inadvertently mentioned as one of the leading figures in the "conspiracy" and a candidate for the post of Premier in the event of its success, one P. P. Ryabushinsky, a well-known pre-war industrialist. And P. P. Ryabushinsky, very inconveniently for the stage-managers of the trial, had died in Paris long before the trial had begun and before the Industrial Party had begun its self-confessed but rather questionable existence.

The firm stand of the British Government at the time of the arrest and trial of six British engineers in the service of the Metro-Vickers Company in the spring of 1933 was a pointed indication of the external complications which were likely to arise when the OGPU gave scope to its unlimited powers and its lively imagination at the expense of citizens of foreign countries. President Roosevelt's insistence that a fair and open trial would be expected for American citizens who might be arrested in Russia was probably another factor in bringing the Soviet leaders to the conclusion that a modification and limitation of the OGPU would be an aid to the country's international relations.

Finally, the existence of an organization with unlimited power of life and death over every Soviet citizen, and possessing its own army and an immense apparatus of espionage, was not consistent with the régime of Cæsarian dictatorship which Stalin has created in the Soviet Union. Although there is no evidence that the OGPU ever tried to play the rôle of a "state within a state" or endeavored directly to shape the course of political and economic policy, there was always the possibility that efforts in this direction might be made.

So the OGPU has gone the way of the Cheka, and the Commissariat for Internal Affairs will write a new chapter in the history of Soviet administrative repression.

Organized in December 1917, the Cheka during the first few months of its existence was quite mild in its operations. Its relatively few victims during this period were mostly bandits or "anarchists" with a strong impulse to "expropriate" private property, who could scarcely be distinguished from bandits. Beginning with July 1918, however, the Cheka began to put to death political opponents of the régime in large batches. The fiercest aspects of the Terror of the French Revolution were repeated, and as a result of much the same causes: domestic uprisings, foreign inter-

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vention, a critical food situation. Bolshevik terrorism reached what was perhaps its climax in September and October 1918, after Lenin had been wounded and a prominent Petrograd Communist, Uritsky, had been killed by Socialist Revolutionaries.

The largest single shooting was in Petrograd, where it was officially announced that more than 500 persons had been put to death in revenge for the murder of Uritsky and the attack on Lenin. Among these were several former Tsarist Ministers, A. N. Khvostov, A. D. Protopopov, I. D. Stcheglovitov and N. A. Maklakov. The town of Yaroslavl seems to have come second, with more than 400 victims, executed after the suppression of an uprising there in July. A description of what must have been a grim massacre in a sleepy provincial town is contained in the following laconic message to the Soviet press from Penza, dated September 25: "The White Guard plot and the attempt to break into the prison and free the hostages have been liquidated. For the murder from ambush of one comrade, Egorov, a Petrograd worker, the Whites paid with 152 lives. In the future firmer measures will be taken in regard to the Whites. Signed: The President of The Provincial Soviet, Turlo."

On a single day, October 3, almost 200 killings were reported from various parts of the country. The Cheka of the Front in Kotelnich led the list with 61 executions; the Chembar county Cheka put to death 48 as "hostages for Egorov;" Rybinsk killed thirty hostages; the little town of Klin executed eight for "counter-revolutionary agitation;" the Astrakhan Cheka put to death twelve who were accused of participating in an uprising in that town on August 15. The Cheka recognized no sex distinctions; one often finds the names of women among its victims; and sometimes it seems that whole families were wiped out, especially in the country districts.

After the defeat of Kolchak and Denikin, at the end of 1919, there was a short-lived tendency toward mildness, which found expression in a decree of January 19, 1920, abolishing the death penalty except on the fronts. But this decree was not carried out in practice; the war with Poland, the continued resistance of the last of the White leaders, General Wrangel, in the Crimea, and the difficulty of subduing the unruly Ukrainian peasantry all tended to preserve a system of merciless severity until the civil war was definitely ended and the wave of guerrilla uprisings which outlasted the regular civil war was crushed.

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The number of persons who were put to death by the Cheka cannot be established with any degree of certainty. During the first period of terrorism, in the summer and autumn of 1918, the Soviet authorities, wishing to inspire as much fear as possible, pursued the policy of publishing fairly regular figures of executions, accompanied in some cases by lists of names. Later the opinion apparently gained ground that excessive frankness in this connection was injurious to the prestige of the Soviet régime abroad, and that secrecy in regard to the number of executions might create still greater terror. So one searches the Soviet newspapers in vain for adequate reference to an outburst of terrorism which is common knowledge among Russians: the slaughter of great numbers of persons who were suspected of association with Wrangel's régime in the Crimea after the evacuation of the peninsula in November 1920.

M. Y. Latsis, a prominent member of the Cheka, states that 12,733 persons were shot all over Russia during the first three years of its existence, which would cover the whole period of the civil war.[1] But there are strong reasons for doubting the accuracy of this figure. The same Latsis in another work [2] asserts that the Cheka during 1918 and the first seven months of 1919 shot 8,389 people in only twenty provinces of Central Russia. Now there were other parts of Russia (Ukraina, the North Caucasus, the Ural Territory, for instance) where the civil war was much fiercer and more protracted than it was in Central Russia and where the number of victims of terrorist repression, in all probability, was far greater. It is difficult if not impossible to believe that if the Cheka admittedly executed 8,389 people during the first year of a struggle which lasted for about two and a half years in Central Russia alone it executed only 12,733 in all Russia (it was just in the outlying parts of the country that the struggle was often most bitter) up to the end of the civil war. While any estimate, in view of the lack of complete and reliable data, must obviously be conjectural and approximate, it seems probable that about fifty thousand people met their death as a result of Red Terror during the civil war. Many careful estimates are very much higher.

When the Cheka was replaced by the OGPU in 1922 the latter was at first denied the right to inflict summary administrative

[1] "The Extraordinary Commissions for Struggle with Counter-revolution," p. 9.
[2] "Two Years of Struggle on the Internal Front," p. 74.

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death sentences. It soon regained this authorization, however. It made use of it sparingly until 1929, much more frequently during and after that year. Its most notorious mass executions without trial were the killing in 1927 of 20 prisoners, avowedly as a reprisal for the assassination of the Soviet Ambassador in Poland, Voikov; the execution of 48 specialists in the food industry for alleged sabotage in the autumn of 1930; and the shooting of 35 officials and employees of the Commissariat for Agriculture in the spring of 1933. The OGPU also carried out many secret executions, so that the total number of its victims is uncertain. Almost anyone who has lived in Moscow for some years knows of instances of such secret executions; two examples of this practice are the shooting of Sergei Treivas, a former secretary of VOKS, the Society for Cultural Relations with Foreign Countries, and of Julius Rozinsky, an employee in the Commissariat for Foreign Affairs.

Inasmuch as it functioned during a period of peace, whereas the Cheka grew up in the stress of civil war, the OGPU naturally shot fewer people than its predecessor. On the other hand, being endowed with uncontrolled and unlimited powers to carry out arrests, banishments and executions, and being able to extort confessions from its prisoners by threatening to inflict reprisals on their friends and relatives, the OGPU was in an uncommonly favorable position to manufacture imaginary plots either out of whole cloth or out of extremely fragmentary and tenuous material.

In the eyes of the OGPU, which naturally felt that its prestige was enhanced whenever it could "discover" a new case of alleged conspiracy or sabotage, and which collected a voluminous amount of information and also of misinformation from the host of spies and informers in its service, any expression of discontent over the food shortage became a signal of counter-revolution. When a small group of intellectuals and professors exchanged critical remarks around a samovar, a good deal of imagination and a liberal use of third degree methods, or the threat that relatives would suffer if "confessions" were not forthcoming, ultimately produced the most amazing tales about secret counter-revolutionary parties with surreptitious connections with foreign General Staffs and dark designs for the overthrow of the Soviet Government. Any industrial accident was likely to be dogmatically qualified as sabotage; and this was also true of any failure in a scientific experiment.

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Before 1929, exile at hard labor was primarily a punitive measure. After 1929 the number of exiles increased so greatly (hundreds of thousands of kulak families alone were deported from their homes and sent to northern timber camps or to new construction enterprises for rough unskilled labor) that the OGPU found itself invested with an important new function: the supervision of an enormous mass of serf labor. It had not only the masses of exiled peasants for the manual labor of felling trees, carrying stone, digging earth, etc.; but also a considerable number of highly qualified engineers and technical specialists whom it could use as organizers and directors of this unskilled labor.

So forced labor, which had existed in Russia for a time during the civil war, but which had been abandoned under the New Economic Policy, reappeared on a very wide scale. Big enterprises, such as the construction of a canal which linked up the Baltic and White Seas, utilizing a network of lakes and rivers in the intervening territory of northwestern Russia, were constructed under the sole direction of the OGPU. The extensive Soviet industrial construction after the inauguration of the Five Year Plan was made possible in part by the very extensive exploitation of the forced labor of "class enemies" who were herded in the OGPU concentration camps and were compelled to work long hours under very hard living conditions and were given just about enough food to keep them alive.

Commenting on the establishment of the Commissariat for Internal Affairs, the official Soviet newspaper, *Izvestia*, writes: "The proletarian dictatorship changes the character of its methods of struggle, passing over in considerable degree to methods of court procedure and relying in much greater degree on precise formulas of revolutionary law." The laws have certainly been sharpened to such a point that no one guilty of anti-Soviet activity is likely to escape merely because the OGPU can no longer shoot him out of hand.

Two very striking pieces of Soviet jurisprudence are the Law of August 7, 1932, which a high judicial authority, Vishinsky, characterized as the "basic law of our epoch," and a decree of June 8, 1934. The Law of August 7 makes death a permissive penalty for any theft of state or collective farm property. Under this law the hungry peasant who takes some of the grain which he has raised before the state levy has been met is liable to be put to death. Under the decree of June 8, 1934, any Soviet citizen,

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whether soldier or civilian, who crosses the frontier without permission is subject to the death penalty. Anyone abetting the flight of a Soviet citizen, or knowing of it without informing the authorities, is liable to five or ten years in prison and to confiscation of property. And a truly extraordinary feature of this law, which might have aroused more comment abroad in times when the world was not so overburdened with accounts of brutality and violence in many countries, provides that dependent relatives of the fugitive who have reached maturity, even if they knew nothing of his intention to flee, are to be banished to remote regions of Siberia for five years and deprived of food cards.

The decree of July 10, which established the Commissariat for Internal Affairs and abolished the "judicial collegium" of the OGPU, which formerly possessed the right to pass summary death sentences, prescribes that in the future "cases of treason, espionage and similar offenses are to be transferred to the military collegium of the Supreme Court of the Soviet Union or to military tribunals." It is not yet clear whether this military collegium will be very different from the judicial collegium of the OGPU which has been abolished. One case which it has heard since the promulgation of the new edict resulted in the swift passing and execution of eight death sentences for alleged treason, espionage and wrecking on the railroads. No outside spectators were admitted, and it is uncertain whether the defendants had more opportunity to avail themselves of legal aid than if they had been sentenced to execution by the formidable judicial collegium of the OGPU.

Another point that will become clearer with the passing of time is whether the new Commissariat will be content to carry on without the right of summary shooting or whether, like its predecessor, it will chafe under the restriction which has been imposed and eventually shake it off. Much, of course, depends on the course of events within and without the Soviet Union. The outbreak of war, for instance, would automatically bring about a great intensification of terrorist methods. A setback in internal reconstruction, a failure to maintain and extend the upward move from the low point of the agrarian crisis would affect unfavorably the prospects of greater moderation.

The administration of justice in the Soviet Union has little concern with the security of the individual; the safeguarding of the authority of the state is always the paramount consideration. Consequently there is an element of impermanence and instability

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about any written laws or regulations; administrative practice varies widely in different periods; a man may be shot at one time for an offense which at another period would be punished by a short sentence of imprisonment.

Neither the conferring on the old organization of a harmless sounding name nor the more solid innovation represented by the withdrawal of the right to pass death sentences without court trial can be regarded as a reversion in Russia to western methods of legality. What has taken place is an evolutionary nuance in a continuing policy of terrorism, which finds abundant expression in such features of Soviet rule as the widespread employment of administrative banishment and forced labor, the infliction of the death penalty for theft, the legally acknowledged practice of holding innocent relatives as hostages. It is still difficult to predict whether, as the bogies of sabotage and counter-revolution become increasingly unreal, the evolutionary trend toward less ruthlessness will proceed in a straight line or in bewildering zigzags. Certainly an enormous change in Soviet official psychology and mentality would have to take place before any political trial in the Soviet Union will seem very convincing to western eyes. Too many indispensable prerequisites of judicial fair dealing — independent courts, a free press, freedom of lawyers to defend their clients to the best of their ability without fear of administrative reprisals — are still completely lacking.

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ALTERNATIVES BEFORE BRITISH LABOR

By Sir Stafford Cripps

IN 1929 when the British Labor Party was asked for the second time to form a government it had no majority in the House of Commons. It was the largest single party but it could govern only so long as it retained the support of a considerable number of Liberals. At an early stage in its governmental career Mr. Lloyd George stated, upon behalf of the Liberal Party, that they would not support any measure of socialism. It then became clear that the utmost that Labor could do was to proceed upon reformist lines, similar to, but perhaps rather more bold than, those which the Liberal Party could itself have adopted.

Unfortunately promises of a definitely socialist character had been held out to the supporters of the Party. These had been enshrined in a document which was afterwards often referred to, "Labor and the Nation." It was not so much a program as a collection of proposals of all kinds, varying greatly in importance and in character. Some of them were definitely socialist, others decidedly reformist, and no order of precedence either as to time or importance had been laid down. The supporters of the Party in the House of Commons included persons of all shades of opinion, from the liberal-minded on the one hand to revolutionary socialists of the Independent Labor Party on the other. As time went on it became abundantly clear that the tactic of the Government was not to ride for a fall by introducing definitely socialist measures, but to remain in power as long as possible, carrying through such reformist measures as were possible with Liberal support. Those who desired to see something effective done to meet the deepening crisis of capitalism became more and more discontented, until the Independent Labor Party members formed themselves into a definite attacking group with a view to forcing the pace.

This had little practical effect at the time, as any issue upon which this group were prepared to vote against the Government brought the Liberals and others to the latter's aid. But it was not only in Parliament that discontent was brewing. In the constituencies, too, the keener supporters became more and more disappointed. Socialism had been talked of so much and so long that

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Party members believed in the reality of their leaders' intentions. The excuse that the Government was in a minority and that it had done more than any previous Government to alleviate the lot of the workers helped hold them in line. But the course of bye-elections showed the Government's waning popularity.

It is a common feature with all capitalist governments elected upon a wide franchise that they become progressively less popular the longer they remain in power. The workers who have been given magnificent promises at election time soon begin to realize how hollow and false those promises were. The swing of the pendulum is the necessary corollary to extravagant and impossible electioneering promises. With a socialist party it should have been different. This was something new, and real hopes were entertained of a fundamental change. However, as time progressed, it was realized that nothing new or startling was coming out of Parliament. There seemed little to choose between a Labor Government and a Liberal or Tory Government; all made extravagant promises, none fulfilled them.

The real testing time came in 1931. The financial difficulties in Germany and Austria frightened the City of London, and when a run started on the pound sterling they decided that action must be taken. Some day, no doubt, the true story will be told of the transatlantic telephone conversations which preceded the fall of the Labor Government, but these were of small importance compared to the real issue that was fought out within the cabinet whether consciously or unconsciously. The moment had arrived when reformism had to be abandoned. It had necessarily increased the difficulties of the capitalists with their rapidly contracting markets, and it could no longer be tolerated without the danger of a complete collapse of the whole system. Two paths were open: to allow reaction to take charge and to give up the concessions which had been extracted from capitalism; or to proceed to risk the breakdown while making a rapid change-over to socialism. It was this latter possibility, no doubt, which alarmed the City of London.

Within the cabinet, as all the world knows, there was a division of opinion. Those who subsequently joined the National Government took the view that it was more important to preserve the economic system than to attempt to establish socialism; the rest felt themselves bound by their pledges to the workers, though they had no very definite ideas of how next to proceed. In the

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result neither the Labor Party nor Parliament was consulted, but a number of the party leaders entered into a coalition with the combined capitalist forces under the guise of a National Government with the obvious intention of saving capitalism.

Within the Trade Union movement and the Labor Party there is a great tradition of loyalty. The leaders who had grown up with the movement were almost idolized; their pictures occupied the place of honor in thousands of working-class homes. It seemed almost impossible to Labor supporters throughout the country that three of these leaders should have joined the enemy, and there was great bewilderment as to the meaning of all that was taking place. After a short sitting of Parliament, during which sundry reactionary emergency steps were taken, the election of the autumn of 1931 was held.

During the few weeks preceding the election the parliamentary Labor Party, which still remained as a strong opposition, feverishly busied itself with working out a new policy. It was obvious that the whole circumstances had changed, and the definitely socialist elements in the party insisted upon the necessity for a decisively socialist program. Shortly before the election the party held its annual conference at Scarborough and the statement that the whole policy of gradualism had been finally abandoned was greeted with immense cheering. Indeed, in the first flush of the realization of the altered circumstances a much more advanced policy was adopted, but it was hastily put together with little time for consideration. In the result, many candidates did not appreciate its implications; many different interpretations of it were put forward from the party platforms; and every opportunity was given to the National Government supporters to mislead the electors as to its meaning and content.

When Lord Snowden, still then Mr. Philip Snowden, announced over the wireless that the very policy which he himself had approved in "Labor and the Nation" was "bolshevism run mad" it was hardly to be wondered at that the electorate became frightened. The Prime Minister waved million-mark notes at his audiences and explained the fate that would overtake the poor if the wicked socialists, amongst whom he himself had been numbered but a few weeks earlier, were to be returned to power. In this confusion and panic the wonder is not that so few Labor members were returned, but that so large a vote was cast for an ill-digested but distinctly socialist program. Over six million

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electors stood by the Labor Party, but owing to the combination of all the capitalist elements in a united front of Tories, Liberals and so-called National Labor less than 50 Labor members were returned.

Disillusionment set in. The undignified squabbles that ensued in Parliament between members of the late Labor Cabinet who now found themselves keen antagonists did nothing to improve the situation. Apathy and despondency permeated the party and the question was constantly asked at meetings: How can we know that our present leaders will not desert us as our former leaders have done? This was a cry from the heart of the movement and no mere superficial argument. It became obvious that a much more fully considered statement of policy must be formulated as the basis for propaganda and as a platform for the next election.

During the ensuing year the Independent Labor Party, which had drifted further and further away from the main party, definitely severed its connection and constituted itself a rival organization. In the process it was itself split in half between those who were in favor of disaffiliating and those who believed it wiser to stay within the movement and assist in making it definitely socialist in its policy. There had also been started a new body within the Labor movement, the Society for Socialist Inquiry and Propaganda (S.S.I.P.) which had met with considerable success amongst left-wing elements of the party. Arrangements were now made to bring together those of its elements which had desired to remain affiliated and the members of S.S.I.P. At a conference held at Leicester immediately before the 1932 Labor Party Conference the Socialist League was formed out of these elements, with the late Frank Wise as chairman. In Scotland a corresponding body, the Scottish Socialist Party, was formed. Both the Socialist League and the new Scottish Party obtained affiliation to the Labor Party, though not without some heartburnings on the part of several members of the National Executive of the Labor Party.

Before the Leicester conference it had become apparent that the more right-wing elements in the party were beginning to get nervous of any too decisively socialist proposals. At Leicester, the executive — which was considerably more on the right than the floor of the conference — was defeated on the issue of the nationalization of the joint stock banks. This was an important matter in itself, but even more important as showing the trend of thought within the movement. Since that time many things have

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happened in Europe and America, and these have had their effect upon thought and plans within the party.

Economic nationalism has made headway in all directions and in the field of international policy there have been growing difficulties and tension. But apart from all this there have been the attempts by various nations to work out a political means of solving their internal economic difficulties. The continued economic crisis in capitalism has rendered these efforts more desperate or more extreme. The three most outstanding experiments which have engaged the attention of the Labor Party are those in Russia, Germany and the United States of America.

Russia has been proceeding steadily with her experiment in communism and, judged in the light of the difficulties of other countries, has met with a very considerable degree of success. She has at last succeeded in bringing in the peasant population as co-adventurers in the new state, perhaps the greatest accomplishment of the whole revolution. The standards of life are low in Russia when compared with western Europe or America, though not when compared with Tsarist Russia. This low standard, however, has been largely self-imposed, in order that as large a volume of productive energy as possible might be devoted to capital goods and — alas! — to munitions of war. With Japan as a neighbor, and with the rape of China before her eyes, Russia felt herself forced to arm, and to arm heavily.

Germany has witnessed a revolution of reaction. Social democracy, which had a chance of converting the economic system in 1918, did not take that opportunity. Instead, a reformist policy was followed and economic power was left in capitalist hands. The load of foreign debt resulting from the war and the perpetuation of capitalism, to some extent forced upon Germany by capitalist nations who looked to her for reparations and debt payments, led to the breakdown of her industrial and financial structure. There was no remedy that could save capitalism which could be applied with democratic consent, so democracy was swept aside and its place taken by a dictatorship financed and supported by big business. The social democratic and trade union movements of Germany had been looked upon as the most influential and stable in the world. When they were wiped out in the course of a few days it came as a far greater shock to the Labor Party than similar events in Italy had been. Ominous, too, was the growth of this extreme form of capitalism. It was no longer an

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isolated experiment in a comparatively distant country, but rather a growing world movement the first evidences of which were becoming apparent in our own country.

In the United States of America, President Roosevelt has staged the greatest experiment ever made in liberalism. With tremendous courage and determination he has set himself the task of saving capitalism, if such salvation is possible. This idea naturally appealed to the more right-wing elements of the Labor Party; in fact, the experiment was hailed from some labor platforms as full of hope. It was not until the succession of strikes showed that the American trade unionists were not wholly satisfied with the development of the situation that doubt crept into the minds of even the most right-wing supporters of the Labor Party. The socialist element in the party frankly stated from the outset that, however admirable and courageous the experiment might be, it was bound to fail unless the President was prepared to assume the economic power in the state and utilize it to terminate the chaotic injustices of capitalism by reorganizing the industrial life of the country upon a socialist basis. That view I held and still hold; it was reinforced by the conversations which I had when in the United States last spring.

At a later date came the tragedy of the Austrian social-democrats. It had for long been a commonplace in labor speeches to hear descriptions of the marvellous post-war developments in Vienna. The houses, schools, hospitals and social amenities for the workers in the Austrian capital were constantly held up as examples of what socialism might do for a great city. When the administrators and supporters of this régime were forced against their will to defend their work and their party by force of arms against the fascism of Dollfuss, and were mown down in their attempt to protect social-democracy, the effect amongst the workers in England was profound. One of the last citadels of social-democracy on the continent of Europe had fallen a victim to the rising tide of fascism.

At first the tendency in the Labor Party was to disregard fascism as a serious danger in England. That sort of violent action might suit foreigners but it would never appeal to the Englishman with his tradition for tolerance and constitutionalism. There was a tendency, which the socialists in the party attempted to combat, to look upon this new phenomenon as something purely political rather than as the outcome of the economic difficulties

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of capitalism. When it became evident that fascism not only could be started but had been started in England the necessity for dealing with this new menace was generally acknowledged. But how? The right wing, like the Liberals, believed in stressing insistence upon democracy as an end in itself. The left wing took the view that some more effective and realistic program of action must be put forward if fascism's superficially attractive appeal was to be defeated. While agreeing that the militarization of politics must be stopped, they placed far more emphasis upon a bold policy of out-and-out socialism as a means of keeping the younger people especially out of the reach of the fascists.

The English press has tried very hard to build up an antagonism between the Labor Party and the Socialist League, but with peculiarly little success. The Socialist League represents definitely some of the more left-wing elements within the Labor Party. It is not in any sense a rival party. It neither puts forward candidates nor nominates candidates for local or parliamentary elections; in fact it is prohibited from so doing by its constitution. It does, however, seek within the Labor Party to propagate ideas that are completely socialist and to influence the party in the direction of more advanced policies.

The policy of the Labor Party is laid down at its annual conferences upon the basis of reports and programs submitted by the National Executive. At the 1933 conference held at Hastings the party marked time. It was felt that the moment had not arrived when it was necessary to dissolve the compromise between gradualism and socialism. Since that time a number of fresh policy reports have been produced and an attempt has been made to recapitulate the whole program of the party in a document entitled "For Socialism and Peace" which is being submitted to the conference at Southport in the first week of October 1934.

The National Government has now been in office for three years. There must, in normal circumstances, be a general election not later than the autumn of 1936. It is possible that by necessity or for tactical reasons the Government may call an election sooner, and it is therefore generally agreed that after this year it will be too late for the Labor Party to make any major alterations in its election program. It is essential that the propaganda for the party should proceed from October next until the general election upon the basis of a final policy statement authorized by the party in conference. It will therefore be necessary at the South-

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port conference for a decision to be arrived at upon the major issue: gradualism or socialism? Exactly how this issue will come up is not material; but it must be presented to the conference and upon it the conference must decide.

When it is analyzed this issue appears more a question of tactic than of political or economic beliefs.

Undoubtedly the growth of non-manual workers, particularly in the managerial, technical and clerical grades of industry, together with the great extension of largely unorganized labor in the distributive trades, has added a new problem to those which must be considered by any social-democratic party. Every member of the Labor Party is in agreement with the insistence upon the use of the machinery of democracy to bring about the economic change to socialism. To use that machinery an electoral majority must be gained. Two questions thus arise for decision. First, should the attempt be made — at all cost — to obtain that majority as soon as possible? Second, how can such a majority be gained? Upon both these points there are wide differences of opinion between the right and left wings of the party.

The right wing take the view that even at the risk of delaying socialism it is necessary to get a majority at the earliest possible moment. They are therefore prepared to modify the program in the direction of gradualism to the extent necessary to enable them to obtain the maximum support from radicals and progressives. They stress the disarmament and humanitarian sides of the peace and war problem in preference to the economic aspect. The program gives the impression of a definite though comparatively short reformist period before any serious attempt is made to deal fundamentally by socialist measures with the economic situation. Their position is somewhat akin to that of so many Americans who think that there would be a better chance for socialism if it were disguised under another name and the central feature of the socialization of the means of production were omitted from the program!

The left wing, on the other hand, insist upon telling the people frankly that certain definite things must be done immediately if it is to be possible to bring about the economic change democratically. They are prepared to take the risk of waiting, if necessary, until a sufficient body of electors can be convinced of the necessity for a socialist program. They realize fully the importance of middle-class support but believe that if the case is pre-

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sented to these voters properly they will be prepared to follow the bolder and more logical lead.[1]

The decision taken by the Labor Party Conference upon this issue will no doubt profoundly affect for good or ill the party's electoral chances. At the present moment it is probably fairly accurate to say that the party could count upon over 8 million votes in the country. At the 1931 election it obtained rather over 6 million, while in 1929 its vote reached the peak figure of 8,362,000. To obtain a clear working majority in Parliament it is reckoned that 15 million votes would be required. Can the Labor Party add 7 million votes before the next general election? To that question no one can give an answer. If the present general economic situation continues up to the next election it is fairly certain that the 8 million votes will be to some extent increased; beyond that it is useless to speculate. There is no doubt that the effect of the virtual extinction of the Liberal Party has been to make it more difficult for the Labor Party to get a parliamentary majority. The combined capitalist vote will defeat the Labor vote in a number of areas where in 1929 the Labor candidate was elected because of a split capitalist vote. On the other hand, in quite a number of rural and "backward" areas there has been a remarkable growth of socialist opinion in the last few years; but it is doubtful whether this can do more at the next election than create large Labor minorities.

If the present slight boom in trade flattens out, as it appears to be doing, and another decline then sets in before the next general election, the number of those who are prepared for a radical change of system might be increased. The National Government have had a perfectly free hand to try every capitalist device for saving our existing economic system. They have tried them all, and are now thrown back upon a reliance on an improvement in international trade. There is at present no sign of any such marked improvement in this direction as would assist them to a considerable expansion of exports.

There is developing in this country the same conflict between the agriculturist and the industrialist which is such a potent factor in the American situation. In England the form which it has assumed at the moment is a strong urge from the agricultural

[1] See such books as G. D. H. Cole's "The Intelligent Man's Guide through World Chaos," G. G. Mitcheson's "The First Worker's Government," and the author's "Why This Socialism?" (all published by Victor Gollancz, London).

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interests to modify the terms of the Ottawa Agreements, and the trade agreement with the Argentine, which they allege are permitting dumping of agricultural produce from the Dominions and the Argentine upon the home market, to the detriment of the English farmer. This is, of course, a common factor in capitalist countries where the private interests of the profit-earners of industry, agriculture and finance constantly find themselves in opposition. There is no solution for such a difficulty within capitalism, except by a compromise of some sort or another.

At the moment the National Government is dealing with the situation by subsidies. The British farmer has already been completely freed from local taxation and has had large subsidies given to him upon his wheat, sugar beet, dairy products and meat. To offset this policy it has been necessary to offer a subsidy to British shipping due to the falling off of cargoes. For a time, no doubt, this wholesale granting of relief to producers of various kinds, who do not get the indirect assistance of tariffs, will be popular. Subsidies will no doubt buy many votes; but in the long run they can provide no cure for the evil from which we suffer. It may, however, have a considerable effect at the next election in one of two ways. The industrial workers as consumers may increasingly resent the increase in the cost of living brought about by this policy; and the agricultural workers will no doubt find that they get little or no share of the subsidies. This should lead to a growing unpopularity of the Government. On the other hand, there will be created for a time a spurious air of prosperity in the rural constituencies, little understood by the workers, and loudly claimed by the Government as the beginning of the solution of their difficulties. It is not possible to foretell which of these two influences will be the stronger.

There is one final factor of great importance and that is the question of peace or war. Capitalism inevitably drifts towards war: economic nationalism is the precursor of economic rivalries which are the root cause of war. In times of difficulty the war spirit of capitalism grows with its fears, and it finds too a great solace in the argument that the manufacture of munitions creates employment. It is forgotten that the manufacture of many really useful commodities would equally create employment! In Great Britain the National Government has changed its policy on disarmament and has now definitely adopted a policy of rearmament, which will probably accelerate as time passes.

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It was claimed in the first instance that the tariff policy and economic nationalism were measures of a transitory nature, but now they have become an integral and all pervading part of the Government's policy. Similarly the rearmament program which is now stated to be small and tentative will no doubt grow and become a more and more important factor in the Government's international policy. The same people who pressed for and obtained the former are now pressing for and will obtain the latter. This will create a good deal of employment in certain areas where depression of trade has become almost chronic, and may produce the appearance of a considerable revival in trade.

Although the workers desire peace, yet the offer of employment and the false cry of national safety will be a great temptation to them to believe that the National Government's action is justified. No doubt the Government will conduct a terrorist program to frighten and intimidate the voters on this question. Speaking in the House of Commons on July 30, on the Labor Party's vote of censure on increased air armaments, Sir John Simon indicated this line of propaganda when he said: "I cannot help thinking that there are some crowded towns in the Midlands and in the North, constituencies which voted without distinction of party for the return to this House of Honorable Members sitting in different places to support the National Government, towns at present quite open and unprovided against the possibility of air attack, which will be much interested to see how their faithful representatives comport themselves on this occasion."

How far such arguments — if they can be dignified by that term — will affect the electoral situation it is not possible to say, but it does not appear unlikely that the National Government will attempt to fight the next election partly upon the basis of their usual scare statements as to socialism and partly upon a war panic. It is of course the intention of the Labor Party to educate and inform the electorate so that they may not be stampeded by such scares. Fortunately it is always far easier to raise a panic cry against the Government than against the opposition.

Reviewing the whole situation, of which I have been able to give only the barest outline here, it seems reasonable to expect that, unless something unforeseen occurs, there should be no very great difference in strength between the socialist and capitalist parties in the next Parliament.

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RUSSIA AND THE WAR

By Bernadotte E. Schmitt

DIE INTERNATIONALEN BEZIEHUNGEN IM ZEITALTER DES IMPERIALISMUS. DOKUMENTE AUS DEN ARCHIVEN DER ZARISCHEN UND DER PROVISORISCHEN REGIERUNG, 1878–1917. Reihe I: Das Jahr 1914 bis zum Kriegsausbruch. (International Relations in the Epoch of Imperialism. Documents from the Archives of the Tsarist and Provisional Governments, 1878–1917. Series One: The Year 1914 up to the Outbreak of War.) Authorized German edition, edited by Otto Hoetzsch for the Deutsche Gesellschaft zum Studium Osteuropas. Berlin: Hobbing, 1931–1934, 5 vols., M. 42 per vol.[1]

Within a month after the revolution of November 1917 the Soviet Government electrified the world and embarrassed the Allied Governments by publishing the "secret treaties" which the latter had concluded with the Tsarist régime. Since that time the German, British, French and Austrian Governments have opened their archives for the period before 1914, and the American Government has published its papers for the years 1914–1918; similar collections have also been announced by the Italian and Jugoslav (Serbian) Governments. Never before has it been possible, within so short a time after the conclusion of a great war, for historians to examine in such detail the circumstances which led up to it. Nevertheless there are still many gaps in the evidence, and the publication of the Russian documents is most welcome.

The original commission set up by the Soviet Government consisted of seven members — Professor M. N. Pokrovsky, perhaps the most distinguished Soviet historian, four other historians, and two Soviet diplomatists; since Pokrovsky's death in 1932, Y. A. Bersin has served as chairman. There is no indication that the commission or the editors of the several volumes have allowed their political sentiments to affect their historical scholarship, for the footnotes are rigidly factual and explanatory. Technically, too, the editing is excellent. The particular archive from which each document is taken is indicated (all pertinent archives have been drawn upon, not merely those of the foreign office); the Tsar's special mark is prefixed to the documents seen by him, and his comments are reproduced; the documents are printed as found, evident mistakes being corrected in footnotes; if a document cannot be traced, the fact is stated. The Soviet commission deserves high praise for issuing so scientific a publication.

[1] *Note.* These volumes are the German translation of the five volumes of Series Three of "Mezhdunarodnye otnosheniya v epokhu imperializma. Dokumenty iz arkhivov tsarskogo i vremennogo pravitelstv 1878–1917 gg.," the great collection of Russian documents now in course of publication by a commission appointed by the Central Executive Committee of the Soviet Government. This collection of documents is comparable to those already issued by other countries. It will consist of three series, the first covering the years from the Congress of Berlin to the Russo-Japanese War, 1878–1904; the second, the years 1904–1913; and the third, the period from January 14/1, 1914, to the overthrow of the Provisional Government in November 1917. The Deutsche Gesellschaft zum Studium Osteuropas, of which Professor Hoetzsch is the directing spirit, is responsible for the German translation. The volumes reviewed in this article are the first five of Series Three, from January 14/1, 1914, to the outbreak of war. (Unfortunately, the German translation is marked "Series One," so that confusion in citation is likely to occur.)

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Nevertheless, it must not be supposed that the Soviet Government has missed so good an opportunity to present its own views of war and world politics. In the collections issued by other governments, the selection has been made with reference to European politics, the system of alliances and armaments, and the outbreak of the war; documents relating to Africa and Asia have usually been published only when they have some bearing on the European situation. This is not the way of the Soviet editors. In the introduction to the first volume, Professor Pokrovsky wrote:

> The war was not decided upon in *July 1914*, but considerably earlier. Naturally the exact moment of this decision cannot be determined: this exact moment simply did not exist — none of the participants could have said when it was actually decided, not in general to make war (that was perhaps decided many years before 1914), but when it was decided to begin the war precisely in the summer of this year. The moment for the explosion of the mines which had long been laid was not clear even to those who had laid them. The *objective situation*, from which the way out could only be a European war *in the very near future*, finally defined itself, however, in the winter of 1913–14. At that time anyone who possessed all the political and military information of both parties (as a matter of fact, none of the directors of policy of the states which were ready to enter upon war, Germany and England not excepted, found himself in this situation) could have anticipated the explosion, "watch in hand." That is why the editors have decided to let the first series of documents begin with January 1, 1914 (o.s.). If one wished to select an earlier date, there was no reasonable ground apparent for beginning with the autumn of 1913: why should not the year 1912 or 1911 be chosen? If one starts later — as almost all editors do — that amounts to giving an answer in advance to the "question of guilt." If the English begin their pre-war volume with the meetings of Nicholas and the King of Rumania at Constanza and of William and Francis Ferdinand at Konopischt, this quite definitely conveys the meaning: Germany and Russia began the war, England was only "forced to intervene." If they had started with the negotiations for an Anglo-Russian naval agreement, then the matter would naturally take on a different appearance. . . . [No omission, dots in original.]
>
> If we wished to start from the most palpable *occasion* for war, the most suitable point of departure would be St. Vitus' Day, 1914, June 28/15, the day on which the heir apparent of the Austro-Hungarian Monarchy fell by the hand of Serbian nationalists. Yet this would be a purely external and formal approach. I must in addition call attention to a document which establishes that Serbia (Pashich) as early as January 20 (o.s.), considered herself justified in addressing to the Russian Government an urgent request to supply the Serbian army with equipment, arms and munitions. What this signifies is again thoroughly intelligible to anyone: already at the beginning of February/end of January, they felt in Serbia the immediate approach of a new war. The Russian Government delayed its answer, for it did not wish the Serbs to begin shooting until the support of England was assured; as this was not the case even in March, to say nothing of January. . . . In the light of this fact, the date of the murder of Francis Ferdinand (the actual "opening of hostilities") recedes into second place.
>
> All these "fatal days" and "fatal weeks," to which the bourgeois historians and editors of documents attach such great importance, are for us considerations of the third order, in so far as we know that the war was not the work of the evil intentions of individual persons and individual groups, but resulted of iron necessity from the economic system of the last decades, the system of monopolistic capitalism. But it certainly does not in consequence follow, as many naïve persons think, that "there are no guilty ones," and that it is not worth while seeking for them. The grasping appetites of all imperialistic governments made for war: but none of them acknowledged this nor does so now; they were all, so they say, the victims of the grasping of others. To prove the

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mania of all imperialistic governments and groups for grabbing, and that not only *a priori* on the basis of the hypothesis that they must be grasping, but on the basis of documentary material that is unimpeachable and possesses validity for all, is to solve a problem of enormous importance. For the struggle against imperialism, we must know surely and quite exactly how it acts, of what sort are its procedure and methods. And if the grasping activity of imperialists is irrefutably established by a series of incontestable documents, we shall naturally have a bill of indictment — but a bill of indictment not against a single person or even against a single country, but against a *class*, and that class the one which in 1914 held power in its hands in all great countries and in most of them still holds it (Vol. I, p. viii–x; German edition, Vol. I, p. xii–xiii).

So, in addition to the hundreds of documents relating to European politics in the first half of 1914, the student who wishes to test the thesis of the Soviet editors will find a large number devoted to Russian activities and ambitions in Manchuria and Mongolia, to say nothing of Persia, which is treated with depressing fullness, and Armenia, where Russia was hatching economic as well as political schemes. It comes, therefore, as something of a surprise to learn that Mr. Pokrovsky regarded Russian imperialism as somewhat less vile than its rivals:

The Russian documents naturally provide the richest material for revealing the grasping policy of Russian imperialism, which in its essence was military feudal imperialism, though it was already beginning, in its own way, to be transformed into capitalistic imperialism. When the Russian Consul in Asterabad naïvely writes: "The interference of the [Russian] detachment in local affairs is an unavoidable and natural consequence of its presence here and of our influence, and serves as the basic instrument for strengthening the latter," we thus have before us the simple military feudal imperialism. But when the Russian Government exerts itself to take its privileges from the English bank in Persia and to hand them over to the Russian bank, when it wrangles with the English Government about the direction of the Trans-Persian Railway, these are the typical little examples of the conventional imperialistic policy of the newest style. Dialectically one merges in the other, and it is not worth while arguing as to which imperialistic category the subjective motives of these or those grabbers belong, but rather to whose interests they objectively give expression. The documents here published provide the possibility of effecting a clear delimitation of the regions where the interests of Russian imperialism dominated which competed with the imperialistic policy of other countries for the purpose of securing a monopoly, and where Russian policy was a reflex of the interests of stronger imperialistic powers — where Tsarist Russia was simply a vassal of the latter (Vol. I, x–xi; German edition, Vol. I, xiii–xiv).

The imperialistic war was neither exclusively nor in the main the work of Russia. On the world stage, Russian imperialism was of second or even third-rate significance, but a European war (which from the beginning tended to become a world war, in so far as Japan — as well *de facto* as also *de jure* — and the United States — *de facto* — took part in it, for they became at once the principal industrial base of *one* of the belligerent parties) could be unchained only by an imperialistic conflict of the first order. The military power of Russia was — or seemed to be — of first-rate importance, and this circumstance gave to it a position in the conflict which did not at all correspond to its economic significance (Vol. I, p. xvii; German edition, Vol. I, p. xviii–xix).

In other words, the war, from the Russian point of view, was primarily a political affair, and only incidentally a manifestation of Russian imperialism; with which bourgeois historians will agree.

For this reason it is hardly necessary to dwell at length on Russian activities in the Far East during the first half of 1914. In Manchuria, the Russian Govern-

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ment, in order to be prepared for "the event of warlike complications with Japan," proposed to spend 1,200,000 rubles on improving the defenses of the Chinese Eastern Railway, and demanded of China a concession for five railway lines in North Manchuria which were deemed necessary for strategic reasons. The Chinese objected to giving the new railways the right to exploit the natural resources of the country, and in spite of much pressure, had not accepted the Russian proposals by the time the war broke out in Europe. In order to avoid establishing a dangerous precedent, the Russian Government refused to support the scheme of a Russian subject to build a street-car line in the Japanese zone in Manchuria. How delicate Russo-Japanese relations were was illustrated by a speech of the Japanese Minister of Agriculture, Viscount Oura, early in July, in which he announced that two divisions would be added to the Japanese army in 1915 and said that "many Japanese believe that war between Japan and Russia will not break out before 30–50 years, but there are certain grounds for assuming that the second war will begin in a few years." As a result of a Russian protest, the offending minister declared that he had not used the language ascribed to him, but the Russian Government did not feel sure of the Japanese reaction to the war in Europe.

Although the Russo-Mongolian agreement of November 1912 and the Russo-Chinese declaration of November 1913 had recognized Outer Mongolia as an autonomous state under the suzerainty of China, the Russian Government met with some difficulty in trying to bring Mongolia under its control. Russian proposals for a railway convention which would give the Russian Government complete control of railway construction in Mongolia were resisted by the Mongolian Government, which, on August 4, submitted counter-proposals, by which Russia was to recognize "the perpetual right" of Mongolia to build railways within its territory and not to interfere if Mongolia built them "with its own means." The Mongolian Government also insisted on a large reduction of the troops being trained by Russian officers and demanded a considerable supply of arms, which would be paid for from a loan of 3,000,000 rubles which Russia felt it wise to make to the weak Mongolian Government; on both points the Russians yielded, if reluctantly. More than six months were required to settle the details of the loan, and apparently the agreement had not been signed by August 4. The Mongols also showed great reluctance about joining a conference *à trois* with Russia and China, for they were anxious to include Inner Mongolia in their territory, to which both China and Russia were opposed. The Russians may have been afraid to apply pressure because of Mongolian intrigues with Japan; they may have been unwilling to risk throwing Mongolia into the arms of China; or they may have felt themselves too deeply involved in Persia to pursue a vigorous policy towards Mongolia and China. The fact remains that after six months' activity they had not secured what they wanted from either China or Mongolia.

In Persia, on the other hand, Russian imperialism seemed to be making rapid progress in the early months of 1914. The Russian sphere of influence in the north, as delimited by the Anglo-Russian convention of 1907, was in a fair way to passing under Russian control. Russian subjects were buying and leasing land on a large scale, with the enthusiastic approval of S. D. Sazonov, the Foreign Minister, although this was contrary to the Treaty of Turkmanchay

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(1829), and the taxes which they should have paid to the Persian treasury were collected by Russian consuls and turned over to the Russian Discount Bank; the Consul at Asterabad, Ivanov, was one of the largest of these landholders. Numerous concessions for the exploitation of the economic resources of the country were being demanded of the Persian Government, whose only hope of resistance lay in the support of Great Britain. The Governor-General of Azerbaijan, Shodja-ed-Dowleh, a protégé of Russia, practically ignored the government at Teheran and was supported by both the Russian Consul in Tabriz and the Russian Minister at Teheran. Since a Russian force of 12–17,000 troops was scattered through the Russian zone, the Persian Government was helpless. Nevertheless, on June 28, it addressed a spirited protest against the whole Russian policy to the Minister in Teheran, Korostovez, who ascribed this move to the machinations of his British colleague, Townley. Sazonov conceded that the collection of taxes from Russian subjects by the Russian consuls should cease and that Shodja-ed-Dowleh might be replaced, but Korostovez tried to hold back this reply and it was not formally presented until July 26, the day after the rupture between Austria and Serbia.

The real importance of the Persian situation, however, lay not so much in Persia as in its effect on the relations of Russia and Great Britain. As has long been known from documents previously published (and now included in this collection), Sazonov was exceedingly anxious, in consequence of his fiasco over the mission of Liman von Sanders, to bring about an alliance between Russia and Great Britain and, failing that, a naval agreement analogous to that concluded between the British and French admiralties. The Russian Ambassador in London, Count Benckendorff, a shrewd observer of the English scene, consistently discouraged any hope of an alliance; he quoted Sir Edward Grey as saying that an alliance was not possible: "You see, even today we do not have an alliance with France." He even warned against thinking of the naval agreement as a "convention." But the question of an alliance seems to have bothered Benckendorff relatively little, for he was convinced that England's participation in a European war depended, not on a written bond, but on her general attitude towards Germany and Russia. What did worry him greatly was the danger that English irritation with Russian policy in Persia might lead to a weakening of the Triple Entente. So from January to June he was constantly reminding Sazonov of this peril. He did not hesitate to criticize Russian methods and Russian agents in Persia; he quoted what Grey and King George said to him about Persia; he pointed out that a Unionist cabinet would be more difficult to deal with than the Liberal Government in power; Grey kept repeating to him, he said, that it was necessary to "save the face of the Persian Government" and to prevent Persian finances from falling into disorder. It was precisely these two points on which Sazonov a week later showed himself ready to make concessions to Persia. Furthermore, the British Government, early in June, presented a sharp protest against the Russian conduct in Persia, and King George wrote a personal letter to Nicholas II calling attention to "the present unsatisfactory state of affairs in Persia" and asking the Tsar to receive the British Ambassador, Sir George Buchanan, for a personal discussion. Sazonov attempted to defend his policy to Benckendorff, but evidently he was impressed by the Ambassador's outspoken letters and the British protests,

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for the Tsar assured Buchanan that "the Persian question will not be able to separate us," and in the draft of reply to King George which was prepared for him by Sazonov he was made to say that "it would not be difficult" to reach an understanding about Persia. The conciliatory attitude of the Russian Government is the more striking because the British were at the same time asking for a revision of the 1907 convention in respect of Tibet and Afghanistan which would have entitled Russia to concession elsewhere. In other words, Russia was prepared to modify her policy in Persia, more especially after the murder at Sarajevo, for the sake of the European situation. On July 31 instructions were sent to Russian representatives in Persia to avoid all difficulties with their English colleagues, because Russia stood "perhaps on the eve of a serious war in which the support of England is very valuable to us."[2]

The relations between Russia and France, who had been allies since 1894, were naturally much more intimate than those between Russia and England. There were, to be sure, some surface ructions. The French were for a moment worried by a rumor that Krupps might acquire control of the Putilov munitions works in Russia and promptly offered financial assistance to prevent it. For a while they insisted, to the great annoyance of the Russians, that Norwegians be appointed as inspectors-general under the scheme for Armenian reforms. The Russians, on their side, did not like a Turkish loan floated in France, and were not a little disturbed by reports that Turkish men-of-war were being built in French yards. What might have developed into a serious difficulty was the controversy concerning the admission of Russia to the Council of the Ottoman Debt. Although the Russian holdings of the debt were small, the Russian Government had made its consent to a 4 percent increase of the Turkish customs dependent upon being granted a seat on the Debt Council. As compensation, Germany insisted on securing a second seat and an alternation of the presidency with France. But France would not consent to a second German delegate. The Russian Government brought great pressure on its ally to make concessions, but to no avail. A Turkish proposal to substitute a Turkish member for the second German delegate was unacceptable to Germany. In consequence Russia refused to sanction the customs increase, although the Ambassador in Constantinople doubted the wisdom of this course. The outbreak of the European crisis shortly afterward put an end to a discussion which was becoming more and more acrimonious.

On the general political side, however, the Franco-Russian alliance was not affected by these incidents. The French government desired "*un resserrement aussi étroit que possible de l'alliance*" and was assured that Goremykin, who succeeded Kokovtzov as Premier in February, was "one of the most faithful supporters of the alliance." Although the Socialists continued to oppose the three years' military service restored in 1913, the Russian Military Attaché in Paris was satisfied of "the deep and blind trust of the French people in our

[2] Before leaving this question, it is worth noting that these Russian documents contain no reference to the new overtures made by Sazonov to Buchanan on July 7 and July 19 for an Anglo-Russian alliance ("British Documents on the Origins of the War," Vol. XI, p. xi). It does not seem necessary to speak of the difficulties between the British and Russian Governments over the Trans-Persian Railway or the suspicions aroused in Russia by the activities of the Anglo-Persian Oil Company, in which the British Government was a heavy shareholder. Both questions are discussed in numerous documents.

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military power." In June, when a ministerial crisis resulted in the formation of a Viviani cabinet, Izvolsky endeavored to convince Sazonov that Viviani could be relied upon, in spite of his Socialist connections, and the new Premier promptly gave definite assurances to both Izvolsky and Sazonov. In Izvolsky's opinion, the threat of resignation by the French Ambassador in St. Petersburg, Paléologue, if the three years' law were not maintained, had no effect except to diminish the Ambassador's authority at the Quai d'Orsay. Sazonov professed himself thoroughly satisfied with the situation, as he might well be. If there is absolutely nothing in these Russian documents to indicate warlike intent or ambition on the part of the French, the Russians had no reason to fear that if the alliance were put to the test France would be found wanting.

With Germany, Russia's relations were decidedly touchy. At the beginning of the year the problem of the mission of Liman von Sanders was still unsolved and Sazonov accepted the compromise offered by Germany only when his Ambassador in Berlin, Sverbeyev, made it clear that better terms were not to be secured. Shortly after this came the sensational article in the *Kölnische Zeitung* (March 2), whose St. Petersburg correspondent asserted that in 1917, when her military reforms had been completed, Russia "will turn her arms against Germany;" this was followed by an outburst in the Russian *Birsheviya Vyedomosti* (March 13) affirming that "Russia wishes for peace but is ready for war." Sverbeyev thought that Germany was trying to "intimidate us" and at the same time give the appearance that she was not afraid of Russia. Later he reported that this appearance was deceptive, for there was real "fear of the increase of our military and economic power," and therefore "military circles and the Prussian junkers did not at all conceal their desire for war;" the German Government, however, wished for friendly relations, and William II was reported to have said that "the Emperor of Russia can count fully on my friendship, just as I can on his." Other factors in the situation were the question of a new commercial treaty and the hostility of the German agrarians. The Russian Government was watching closely German economic penetration in Anatolia, in Persia, and in China; it formally protested to Berlin against the tendentious news about Russia which was supplied by the German telegraph agency to the *Deutsche Japan-Post*. Then two days after Sarajevo, Germany demanded the recall of the Russian Military Attaché in Berlin for espionage; this was agreed to, but in spite of German promises to keep the matter quiet, it was aired with considerable publicity. The Russian Government had also received disturbing reports of German intrigues in Sweden and Norway. Thus Russia and Germany were mutually irritated when the European crisis opened.

Italy at this time was engaged in a desperate struggle with her ally Austria for the control of Albania; officially the two countries were pursuing a common policy, with which Russia had scant sympathy and as little to do as possible. With engaging frankness the Italians explained that they thoroughly disliked their situation and would revert to the policy of Racconigi (Russo-Italian agreement of 1909) as soon as possible. When Salandra became Premier, he assured the Russian Ambassador that "Russia could not have a more convinced friend than himself." One gets the impression that the Russian and Italian Governments understood each other perfectly.

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With Austria-Hungary, her historic rival in the Balkan peninsula, Russia's relations were somewhat anomalous during the first half of 1914. Although the two governments watched each other like hawks, no specific issues arose between them over Balkan questions, except in Albania. Not unnaturally, the Russian Government declined to assist Austria in her contest with Italy, refusing to send troops to assist the international commission in Albania or to exert pressure on Rumania to do so. Russian coquettings with Rumania (a cordial telegram from the Tsar to King Carol), which culminated in the famous meeting of Nicholas and Carol at Constanza, caused intense irritation in Vienna and Budapest; "so much the better," was the Tsar's comment. A good deal of suspicion was aroused by the trials at Mármaros-Sziget, Debreczen and Lemburg, in which Russia was accused of fostering conspiracies against the Hapsburg Monarchy; the Russians, who learned that Czech officers were not considered reliable by the Austrian military authorities, did not make the situation better by trying to establish a Russo-Czech club in Prague and create a secret organization in Bohemia, the moving spirit of which was the Czech deputy Klofáč, or by inviting 24 Slavs from various parts of the monarchy to a Pan-Slavist Congress in Moscow. The Austro-Hungarian press and parliamentary opinion was openly hostile to Russia, and some of the harshest attacks came from those supposed to be closest to the Archduke Francis Ferdinand, the heir apparent. The Foreign Minister, Berchtold, professed a desire for friendly relations, but the Tsar commented, "Yes, but they must not push us to the limit." What the Russian reaction was to the reports that Austrian manœuvres would be held in Bosnia in June is not indicated; but there can be no doubt that the two governments were highly suspicious of each other in all respects, and that the general atmosphere was as bad as possible.

Such, then, was the diplomatic background against which Russia pursued her policies in the Near East from January to July 1914. In the face of Albanian complications, the Turco-Greek tension over the Ægean Islands and the resentment of Bulgaria at her defeat of the year before, it would have been easy enough for Russia to fish in troubled waters and create a dangerous situation. Sazonov declared, however, on March 5, that it was to the interest "of all the Great Powers and especially those of the Triple Entente" to prevent the outbreak of a new war, and in conformity with this view he exerted great pressure on Turkey and Greece, whose relations had become most threatening by the middle of June, to keep the peace, with the result that the Grand Vizier and the Greek Premier agreed to meet in Brussels; Bulgaria was also severely admonished. This does not, of course, prove more than that the Russian Government desired to avoid difficulties at that time.

As has long been known from documents previously published, the policy of Russia in 1914 was to preserve Turkey, in a condition neither too strong nor too weak, for as long as possible, but at the same time to make adequate preparations for seizing the Straits if and when the suitable moment arrived. Yet that moment evidently did not appear imminent, for the naval building program brought forward in March, which would enable Russia to obtain the mastery of the Black Sea after Turkey had received the two battleships then building in England, was spread over a period of five years from 1914 to 1918; and in June, when the Minister of War indicated the measures necessary

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from a military point of view if the Straits were to be seized, he asked that they should not be taken at the expense of the great program which was being carried out to make Russia ready for war on her western, i.e., Austro-German, front. Sukhomlinov also pointed out that the navy was not yet ready to load troops speedily enough for a successful expedition; the navy denied the charge, but proposed that the matter be postponed until the autumn. In other words, the Russians were preparing for the distant future and not for immediate action. What worried them at the moment was the possibility that Turkey, in addition to the ships building in England, might also be able to buy battleships from Argentina and Chile. The Russian Government therefore tried to buy the Argentine and Chilean ships, even asking the British Government to arrange the affair with Chile; but without success in either case. A Russian protest to England against the reorganization of the Turkish fleet by the British Admiral Limpus brought the retort that "if His Majesty's Government had refused the Turkish request, the reorganization of the Turkish fleet would surely have been entrusted to Germany;" if the Turkish fleet went on the warpath, England would consult with Russia as to "the best method of procedure."[3]

From January on, the Armenian question loomed large in Russo-Turkish relations. After some concessions from Russia, Turkey finally accepted the reform program on February 8, but two months passed before the inspectors-general were agreed upon, and even then the Porte delayed appointing them, in spite of numerous remonstrances from Russia; a solemn promise of immediate action given on July 13 was still unfulfilled when the European crisis gave both Russia and Turkey other things to think about. By way of retaliation the Russians permitted agitation against the Young Turks from the Caucasus, and were privy, at least so the Turks suspected, to a Kurdish outbreak in March.

True to their traditions, the Turks endeavored to profit by the dissensions of the European powers. Although Russia had backed down before Germany in the matter of the Liman von Sanders mission, the refusal of Russia to promise support to Turkey in the dispute with Greece over the Ægean Islands was not to be ignored. Turkish policy therefore began to veer around towards Russia. A special Russo-Turkish committee was constituted in Constantinople, and in May a mission headed by Talaat, Minister of the Interior, visited the Tsar at Livadia. The word "alliance" was twice mentioned by the Turkish visitor, and after his return to Constantinople Talaat discussed this idea with the Russian Ambassador. A little later, however, when Turkish persecution of the Greeks in Asia Minor became known, the Russian Government used stern language to the Porte and sent a man-of-war to cruise along the Anatolian coast. With the advent of the European crisis in July, it was natural that Turkey should decide to exploit the difficulties of Russia.

Whatever the Russian policy towards Turkey might be, the attitude of Bulgaria was an important factor. In 1914 Russian influence was at a very low ebb,

[3] In January a rumor reached the Russian Government that Germany was disposed to sell a battle cruiser to Turkey, the *Goeben* or the *Moltke;* this evoked from the Tsar the comment, "That is certainly illuminating and shows how little one can trust the declarations of Germany." In May it was reported that the firm of Voss & Blum had offered Turkey a cruiser that it was building for the German navy. Both stories were without foundation.

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for the Tsar's Government was held responsible, at least by the politicians, for the disaster which had overtaken Bulgaria in the second Balkan war. In a long interview with Savinsky, the Russian Minister, King Ferdinand endeavored to defend himself from the charge of intriguing with Austria, but, although the Tsar sent a cordial telegram to the King, the Russian Government adopted an attitude of expectancy and reserve, having no confidence in the Radoslavov Cabinet, which was avowedly pro-Austrian. Repeated rumors of a Turco-Bulgarian alliance, although denied by the Bulgarian Government, did not strengthen Russian confidence.[4] Savinsky tried to persuade the King, through his secretary, to replace Radoslavov by the leader of the opposition, Malinov, but Ferdinand was not to be bulldozed; the opposition, for that matter, was reluctant to assume power at so critical a moment. Suggestions for bribing the Bulgarian press and buying up a Bulgarian bank were made and approved, but promised little.

The real hope of Russian diplomacy lay in preventing the Radoslavov cabinet from raising a foreign loan, without which it could not hope to stay in office. So a veto was promptly imposed on a loan in Paris. But the government turned to Vienna and Berlin, and in April it became known that German bankers would make a loan of 300 million francs in return for valuable railway and tobacco concessions, with perhaps English and Belgian groups participating. In a series of frantic telegrams and fervid dispatches, Savinsky reported the efforts of himself and his French colleague, Panafieu, to prevent acceptance of the German terms, which, he asserted, would make Bulgaria an economic vassal of Germany; he complained bitterly of the lack of support from his British colleague, and the British Government was actually little disposed to interfere. King Ferdinand professed himself helpless. As the government evidently intended to accept the terms offered, the Russian Minister proposed a plan, according to which the King should be asked to dismiss the Radoslavov cabinet on the promise of a French loan on better terms. The Russian Government was not enthusiastic about this scheme; at least it wished to be assured about the new government before any loan was made, but it agreed. Unexpected difficulties, however, arose in France, where there was a temporary shortage of liquid funds; the French banks insisted that Russia must participate in the loan, and this was not easy to arrange. Weeks went by before a banker named Périer, who had hitherto not been recognized by the French Government, came forward with an offer, the terms of which were not to the liking of the Russian banks. By this time the German loan had been signed, and Savinsky hoped to prevent its acceptance by the Sobranye by getting the opposition to support the more favorable terms of Périer. But it turned out that Périer could not raise the necessary amount and the government, by cleverly misrepresenting his terms, put the German loan through the Sobranye by high-handed methods. French and Russian threats to demand immediate payment out of the new loan of advances previously made fell flat, and Ferdinand unctuously declared that he would abide by the vote of the Sobranye. Savinsky was

[4] On May 13, 1915, the French Embassy communicated to the Russian Government the text of a treaty supposed to have been concluded between Bulgaria and Turkey on January 25, 1914, but did not guarantee its authenticity. In his book "Bulgarien und die Weltkrise" (Berlin, 1923), p. 117, Radoslavov stated that the Turco-Bulgarian alliance was concluded on August 6, 1914.

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pleased to blame Austrian intrigue for his fiasco, but the violent language which he habitually used to King Ferdinand and the Bulgarian ministers must have contributed not a little thereto. Austria, it may be noted in passing, was believed to be supplying Bulgaria with munitions and money.

If the documents leave the impression that the Russian Government was less concerned about Bulgaria than its Minister on the spot, its interest in Montenegro and Serbia was deep and constant. In Montenegro a desperate situation existed. The treasury was empty, the government corrupt, King Nicholas hopelessly discredited in the eyes of his own people. The loan promised by the London Conference of Ambassadors in 1913 had not been made, and in spite of urgent appeals from Russia to France and England, nothing had been settled by the middle of July. In the eyes of the Russian Government, the only solution lay in the union of Montenegro and Serbia, which was desired by the Montenegrin people, and in March Nicholas addressed a letter to King Peter of Serbia proposing this step, which was agreed to by Serbia. But Nicholas was secretly hostile, so that it was not until June that the Montenegrin Government was prepared to open negotiations. A few days after the murder at Sarajevo, however, Sazonov, alarmed by the tension between Serbia and Austria, advised that the negotiations be postponed. A more immediate problem was that of Russian military assistance for the Montenegrin army, which Russia had subsidized and for which she had provided instructors. That something would have to be done was recognized; the question was how to keep the untrustworthy king out of it. The Russian Minister at Cetinje was full of suggestions, but two special conferences at St. Petersburg failed to reach any decision.

A good deal concerning the relations of Russia and Serbia was revealed years ago in the Serbian documents published by M. Bogichevich, according to which Russia was giving considerable encouragement to Serbia in her hopes of an ultimate reckoning with Austria. The Russian documents are rather more circumspect. Thus there is no account of the Tsar's conversation with Pashich, the Serbian Premier, on the occasion of his visit to St. Petersburg. Perhaps the most interesting episode had to do with the Serbian request, early in February, for a large supply of arms, Serbia's resources having been exhausted by the Balkan wars. The Minister of War took the position that Russia did not have these arms to spare, and Sazonov duly notified the Serbian Government. On June 20, however, Sazonov wrote to the Chief of Staff, General Yanushkevich, asking if something could not be done; to which Yanushkevich replied that 120,000 rifles with a thousand rounds for each could be provided. Serbia promised to pay for them from the proceeds of the loan then under negotiation. It would not seem, therefore, that the matter was regarded as urgent. A second matter was the demand of the Russian treasury that the Serbian Government pay off a loan of four million francs contracted with a private bank for the Serbian officers' society ("Zadruga"). Nothing seems to have been done, for early in July the bank demanded that the Russian Government assume responsibility; but no answer had been given when the war broke out.

The Russian Minister in Belgrade, Nicholas Hartvig, even in his lifetime bore a sinister reputation for stimulating Serbian hostility to Austria. Hence there has long been much curiosity about his correspondence with St. Peters-

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burg, which, it was thought, would afford proof of his evil influence.[6] Actually, his numerous reports reveal almost nothing about his own conduct. He kept his government fully informed of what was happening, but said little about himself, except that he saw the Crown Prince Alexander frequently. Thus both he and the Military Attaché, Colonel Artamonov, described at length the cabinet crisis of June 1914 and its antecedents, but from these accounts one would never learn that the action and influence of Hartvig was responsible for Pashich continuing in office, as the Serbian writer "Marco" has affirmed. It is interesting to note that both Russians refer quite casually to the "Black Hand," whose opposition to the radicals was a primary cause of the crisis, as if there were no secret about its existence. Hartvig's silence does not, however, acquit him of the charge brought against him, for Savinsky, who visited him at Belgrade, wrote to Sazonov in February that from his conversation he derived the conviction that "Hartvig aims to incite Serbia against Austria." Hartvig himself noted with satisfaction that "with the exception of about ten political hangers-on without any roots and obscure corruptible agents, there are at present, as is generally admitted, no Austrophiles in Serbia;" how far this was the result of his own machinations is a question that can hardly be answered.

The most ticklish problem affecting Serbia early in 1914 was the matter of the Oriental Railway, which belonged to Austrian capitalists. Serbia wished to take over that part of the line which lay in her new territory, but the Austrian Government was loath to surrender so potent an instrument for controlling the economic life of Serbia. As a way out of the difficulty, a Franco-Austro-Serbian combination had been proposed, but the Serbs disliked both the French and the Austrian terms. To complicate matters still more, Italy demanded participation, nominally to ensure the economic independence of Serbia, really to cause the failure of the negotiations; both Russia and France were reluctant to have Italy associated with the scheme. Austria then offered to let Serbia buy the railway if she were given a monopoly of orders for railway materials, which was opposed by the French. Russia urged Serbia to accept the original French plan and on no account to discontinue the negotiations. As the deadlock continued, Austria finally demanded the return of the line to its Austrian owners, to which Serbia countered by threatening to build a rival line. Austria then declared her willingness to let Serbia buy the line, and in June the price was fixed at 42,000,000 francs. The details of the transaction were being amicably discussed when suddenly, on July 1, three days after Sarajevo, the Austrians broke off the negotiations. Agreement would not, however, have prevented, sooner or later, a clash between Austria and Serbia. Writing just before the Austrian ultimatum of July 23 was sent to Serbia, the Russian Chargé in Belgrade observed: "Since the close of the Balkan wars Serbia has entered upon the second and final period preparatory to the realization of her national task, which can be briefly described as to be ready, when the favorable moment arrives, to unite all Serbs under the rule of the kingdom and to conquer its own

[6] Statements by the Serbian writer, M. Bogichevich, and the Russian writer, N. P. Poletika, that the Hartvig papers had been removed from the archives of the former Ministry of Foreign Affairs are incorrect, at least so far as concerns his official correspondence. Many private letters are also available, but since they were not numbered, it is impossible to determine whether all of them have been preserved.

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assured way to the Adriatic." This preparation, so the Russian diplomatist thought, would require at least three years, but it was impossible to state definitely when normal relations with Bulgaria would be restored and "when Rumania would be induced to take an unflinching decision in the desired sense."

Whatever the ultimate aim of Russian policy may have been, no encouragement was given to Serbia, so far as these documents show, to provoke Austria. Nor is there any indication that Russia was contemplating war in 1914. True, the French Ambassador reported court gossip to the effect that Kokovtzov was dismissed from the premiership because he "subordinated the general and the foreign policy of Russia to the interests of the treasury" and that there was to be "a new orientation of general policy." As a matter of fact, it is difficult to discover any change of policy, unless it was the attempt to secure an alliance with Great Britain; in the Near East, Sazonov held to his course of preventing complications. Possibly sinister intentions can be read into a long discussion in March by the financial committee of the government on the question of Russian deposits abroad. The committee was of the opinion that, since Russia was none too well financially prepared for war, the amount of money on deposit abroad (some 700,000,000 rubles) should be gradually reduced, and it asked for an expert legal opinion on the question whether, in the event of war, money on deposit could be seized by the enemy government; in the discussion Germany was the one country mentioned by name. On June 20, the legal expert of the foreign office, Professor Nolde, rendered an opinion that Russian funds abroad were not protected by treaties and that the only sure method of protecting them was to withdraw them from countries "concerning whose peaceful intentions complete certainty does not exist." It was doubtless this opinion which caused the Russian Government, on July 24, to recall the sums on deposit in Germany and Austria-Hungary. What significance is to be attached to the manœuvres held at Kiev in April 1914, the increase in the yearly contingent of recruits by 136,000 men, and the calling up of two classes of reservists for the autumn of 1914 cannot be determined, for they are mentioned in only one document, which is a report from Vienna indicating a certain nervousness in Austria.

So we are left very much where we were before the publication of these documents as to the innermost secrets of Russian policy in the first half of 1914. All that can be said is that the documents do not provide proof of Russian intention to go to war, either in 1914 or at any other determined moment.

This is especially true of the documents in Volume IV, which covers the period from June 28, the day of the murder at Sarajevo, to July 22, the eve of the Austrian ultimatum. During these weeks the various negotiations involving questions in various parts of the world which had in some cases been going on for months are continued as if the tragedy at Sarajevo were only an unfortunate incident. Sazonov's lack of concern is revealed by his going on leave for some days and by the fact that he addressed only two communications to Belgrade and three to Vienna; nor did he take any soundings in London, Paris, Berlin or Rome as to the possibility of action in the event of a crisis. The Ambassadors in Paris, Berlin and even Vienna went on leave. No military measures are recorded. If the documents present a correct picture of the situa-

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tion, the Russian Government was taken by surprise when the stern Austrian ultimatum was issued.

From Vienna, the news was on the whole reassuring. Military circles in Sarajevo indeed clamored for an expedition against Serbia; the German and clerical press in Vienna, and Tschirschky, the German Ambassador, were trying to excite public opinion against Serbia and Russia; the garrisons on the Serbian and Russian frontiers were reported to have been strengthened. As the month of July progressed, there was an ominous silence at the Ballplatz, until on July 16 the Russian Ambassador, Shebeko, learned that demands would be made on Serbia, "in which the Austrian Government will bring the question of the Sarajevo murder into connection with the Pan-Serbian agitation within the frontiers of the empire." But Berchtold's assurances that Austria "in no way intended to provoke a conflict," and perhaps the fact that Austria had made a new overture to Serbia on the Oriental Railway, led Shebeko to leave Vienna on July 21. Sazonov's only reactions were to warn the Austrian Chargé in St. Petersburg against demanding an investigation in Serbia of the murder and to call Berchtold's attention to the danger of the Austrian press quoting from irresponsible Serbian newspapers.

Very little information about the murder at Sarajevo was received except the outward details. Hartvig reported that Chabrinovich had been allowed to remain in Belgrade at the request of the Austrian Consul, and that Printsip had had to sell his overcoat for eight francs in order to leave Belgrade, yet money had been found on him at Sarajevo. The Russian Consul at Sarajevo criticized the inadequate police measures of the local authorities. Finally, on July 16, Shebeko transmitted a long report from Prince Gagarin, who had been sent to Sarajevo to make an investigation. This report made much of the demonstrations against the Serbs after the murder; also "it is hardly to be assumed that the threads of the conspiracy lead to Belgrade" for "the bomb thrown by Chabrinovich was obviously prepared by himself," being "a simple bottle filled with nails and some kind of explosive." The incriminating revelations of the connection with Belgrade which were allowed to trickle through the Viennese press were apparently not reported to St. Petersburg by the Russian Embassy, so that Sazonov was not prepared for the accusations of Serbian complicity which were made in the Austrian ultimatum.

Meanwhile Serbia had behaved very well. The celebrations of St. Vitus' Day had been stopped as soon as the murder at Sarajevo was known. Pashich was determined "not to react to the unworthy provocations of Austria;" he used "all legal means" to keep the Serbian press in hand, and declared that "if undoubted proofs of the participation of certain persons in the crime were produced by Austria, the Serbian Government would hand them over to trial without delay, whoever they might be." This willingness was made known to the Powers by a circular telegram which was communicated to the Russian Government on July 22. The anxiety of Serbia was well attested by the action of the regent, the Crown Prince Alexander, who informed the Russian Chargé that the Serbian army had only 100,000 rifles, "a circumstance which constituted a great temptation for the enemies of the kingdom."

The German press was reported as being strongly anti-Serbian, but the Russian Chargé believed that "a great satisfaction was felt in Berlin that Vienna

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had not yet made any representations in Belgrade," because Germany did not wish to lose the steadily improving Serbian market. Only on July 22 did Bronevsky report that the German Foreign Minister was evasive and the French Ambassador "somewhat pessimistic," because the approaching German manœuvres would mean a temporary increase of the German army by 450,000 men. Bronevsky also transmitted a rumor picked up by the British Naval Attaché to the effect that some German reservists had been warned of "a possible mobilization."

The most interesting communications received by the Russian Government during this period were from the Ambassador in London. Benckendorff in three letters dilated on Grey's concern over the European situation. In Grey's opinion, the main danger lay in the fact that Berchtold was "weak;" therefore the essential thing was to reassure Germany: "the more Germany is reassured, the less will she support Austria." He thought that an offer of good offices should be made before it was too late; perhaps the Tsar might write to the Emperor Francis Joseph. He also suggested that Sazonov might speak in a conciliatory tone to the Austrian Ambassador in St. Petersburg. Benckendorff likewise reported a conversation with Lichnowsky, the German Ambassador, who was "distinctly uneasy" and left the impression that "he does not count on so effective a moderating activity on the part of Bethmann-Hollweg as on previous occasions."

If Sazonov took no action in regard to the European situation during the first weeks of July, the explanation is presumably that he wished to consult the French statesmen Poincaré and Viviani, who were scheduled to arrive in the Russian capital on July 20. Apparently no records have been preserved, if any were made, of the Franco-Russian conversations, for the only documents given are the toasts exchanged between Poincaré and Nicholas II at the state banquets which have long been known. Only the French documents can reveal these secrets. But it is known that one thing was done: it was decided to make representations in Vienna that Russia and France were not disposed "to tolerate an unjustifiable humiliation of Serbia" and to express the hope that "reason will prevail at Vienna over bellicose tendencies." Before this could be acted upon by the French and Russian representatives in Vienna, the Austrian ultimatum had been issued.

The ensuing crisis is covered by the fifth volume of the collection, which offers more than 500 documents for the study of Russian policy. Unfortunately it was not the practice of the Foreign Office to note the hour when telegrams were received or dispatched, and the lack of this data makes it impossible to determine the exact moment at which decisions were taken or to know what information was available at a given moment. Moreover, Sazonov did not record his conversations with ambassadors and ministers, and the statements of Baron Shilling, whose well-known diary of the crisis, "How the War Began," is reproduced, are often inadequate. Nor have the archives yielded documents which elucidate many troublesome questions concerning the Russian mobilization, presumably because the question of mobilization was settled in direct conferences or by telephone. A complete and fully satisfactory analysis of Russian policy is therefore out of the question.

For some years the German writer, Alfred von Wegerer, has maintained,

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largely on the basis of newspaper evidence, that up to noon of Saturday, July 25, the Serbian Government was disposed to accept the Austrian ultimatum *in toto*, but that in consequence of encouragement or advice received from St. Petersburg revised its attitude and delivered a reply, just before the time limit expired, which the Austrian Government declared unsatisfactory and evasive. The Russian documents do not in any manner support this argument. On July 24 Pashich said that the Austrian note could be neither accepted nor refused and that he proposed to indicate "the acceptable and the unacceptable points;" the Crown Prince considered "particularly humiliating" point 4 and those involving the activity of Austrian agents in Serbia. On its side, the Russian Government sent only two telegrams to Belgrade, one on July 24 urging Serbia not to resist an Austrian invasion, but to withdraw her army into the interior and to appeal to the Powers, the other on July 25 advising Serbia to seek the mediation of England. The telegram from Alexander to the Tsar asking for help was not received by Nicholas until July 26. The Tsar commented: "A very modest and worthy telegram. How shall I answer it?" The Serbian Minister in St. Petersburg, Spalaykovich, has denied that he sent telegrams of the kind imagined by Herr von Wegerer, for Sazonov had urged upon him the necessity of conciliation and the acceptance of the ultimatum as far as possible. It would seem to be a fair conclusion that Russia, except in a very general way, left Serbia to make her own decisions.

Not that Russia was indifferent to the fate of Serbia. It has been known for years that on July 24, immediately after the Austrian ultimatum was issued, the Russian Government decided in principle on the mobilization of the four southern military districts and of the Black Sea fleet, Sazonov being empowered to determine when these measures should be executed. The precise intentions of the government were stated on the following day by the Chief of the General Staff, Yanushkevich, to the committee of the General Staff which had met to discuss the technical details:

> His Majesty the Emperor has been pleased to declare that it is necessary to support Serbia, even if we have to order mobilization and begin warlike operations, but not, however, until the Austrian troops had crossed the Serbian frontier.
>
> According to the information received, some steps preparatory to mobilization in Austria-Hungary and Italy had been carried out. Therefore His Majesty the Emperor has been pleased to confirm the decision of the Council of Ministers that the period preparatory to mobilization should begin in the night of July 25/12–26/13.
>
> Should it prove necessary to order mobilization, the All-Highest, in consideration of the fact we must limit our action to against Austria alone, has ordered that the military districts of Kiev, Odessa, Kazan and Moscow be mobilized. The other districts are to be mobilized only in the event that Germany joins Austria, not before this, in order that still greater diplomatic complications may be avoided.

In plain language, the Russian Government acted on the assumption that Austria intended to make war on Serbia, but it decided to postpone the order for mobilization until the overt act was committed by Austria. In the meantime Russia must take the steps preliminary to mobilization, and the "period preparatory to war" was instituted; the text of the document containing the details of this measure is published in full, for the first time. But no irremediable decision seems to have been reached. At any rate, Sazonov, on July 26, tele-

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graphed to Bucharest that "we are doing everything possible to avert an Austro-Serbian conflict," and on the following day the Tsar stated that he had informed his mother, who was in England, that "hope for peace still exists." This did not prevent the military authorities from going ahead with their preparations. Thus the period preparatory to war was extended to the Caucasus and Asia; the export of horses was forbidden; and Sukhomlinov, the Minister of War, asked that the sale of liquor be stopped in the districts slated for mobilization. Numerous directives were also issued to the naval commanders in the Baltic. But none of these documents indicates any attempt to control the policy of the foreign office.

Mobilization as an immediate measure is first mentioned in a telegram of July 28 from Yanushkevich to the commanders of all the military districts except the Amur: "July 30/17 will be announced as the first day of our general mobilization. The announcement will follow according to the telegram agreed upon." This telegram has been known for many years, but under date of July 29. Now, according to the testimony of the Russian Generals Dobrorolsky, the Chief of the Mobilization Section, and Danilov, the Quartermaster-General, the question of mobilization became acute as soon as news was received of the Austrian declaration of war against Serbia on the afternoon of July 28, for the declaration of war was considered tantamount to the opening of hostilities. Sazonov, for diplomatic reasons, opposed a general mobilization, upon which Yanushkevich insisted, for technical military reasons. The result was a compromise, by which two ukases should be prepared for the Tsar's signature, one for partial, the other for general mobilization, the question being left open as to which should be published. Yanushkevich's telegram shows that either he was trying to force the situation or was confident of securing the Tsar's consent to general mobilization, for the question of mobilization was not taken up with Nicholas until the following day, July 29. But the general seems to have been over-confident. Historians of the crisis have generally agreed, relying on the recollections of the Russian generals and on Baron Shilling's diary, that the Tsar did sign the ukase for general mobilization on July 29.[6] But at 6:38 p. m. of that day, the Minister of Marine telegraphed to the Commander of the Baltic Fleet:

> His Majesty the Emperor has ordered that, beginning at midnight of July 29/16–30/17, the mobilization of the Baltic and Black Sea fleets and of the districts of Kiev, Odessa, Kazan and Moscow is to be carried out, in order to place them in a state of war.

That is to say, the Tsar had ordered *partial*, not general, mobilization. This is the only mention of mobilization in the official documents for that day. Yet there can be little doubt, in view of what Shilling and Dobrorolsky record, that at some time during the day the Tsar consented to *general* mobilization, which he later rescinded, after receiving a conciliatory telegram from the German Emperor. Indeed, at 2:20 a. m. on July 30, the Chief of the Admiralty Staff

[6] B. E. Schmitt, "The Coming of the War: 1914" (New York, 1930), II, 99; S. B. Fay, "The Origins of the World War" (New York, 1928), II, 452–456; P. Renouvin, "Les Origines immediates de la guerre" (Paris, 2nd edit., 1927), pp. 138–140; H. W. Wilson, "The War Guilt" (London, 1928), p. 241; H. Oncken, "Das Deutsche Reich und die Vorgeschichte des Weltkrieges" (Berlin, 1933), II, 805.

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telegraphed to the Commander of the Baltic fleet: "In consequence of the negotiations of His Majesty the Emperor with William, His Imperial Majesty has cancelled the general mobilization, but has left in force the order for the mobilization of the Baltic and Black Sea fleets and of four districts." While the character of the evidence makes certainty impossible, the first telegram quoted above tends to confirm the statement of Shilling that it was a threatening communication delivered by the German Ambassador warning Russia not to mobilize which caused Sazonov to seek the Tsar's consent to *general* mobilization and induced the monarch to yield. The Tsar's entry in his diary for June 29 implies that there was considerable discussion between him and his Ministers: "The day passed in unusual activity; I was called constantly to the telephone, now it was Sazonov, now Sukhomlinov or Yanushkevich at the instrument." Although Nicholas did not indicate the subject of his conversations, the mention of the Minister of War and the Chief of Staff speaks volumes.

The documents for July 30 throw no light whatsoever on the circumstances in which Sazonov finally persuaded his master to order general mobilization for the second time. Two laconic telegrams are printed, the first ordering partial mobilization, the second substituting general mobilization; but the hours of dispatch are not given. At the time, and in his memoirs, Sazonov justified the general mobilization on the ground of German military preparations. The only military information concerning Germany recorded in the Russian documents was contained in two reports from the Military Attaché in Paris, the first stating that German troops in Posen and East Prussia were being "gradually mobilized," the second that all German fortresses were being placed in a state of defense and reservists since 1902 recalled from France. Sazonov's assertion is hardly borne out by the information available to him. One matter, however, is definitely cleared up. In the Russian "Orange Book" published in 1914, a telegram from the Ambassador in Vienna was printed, under date of July 28, according to which "the order for general mobilization has been signed." The telegram has long been suspect, and the editors state that it could not be found in the archives. What Shebeko did telegraph on that date was that eight corps, that is "half" of the Austrian army, had been mobilized; on July 29 he reported that general mobilization was expected on the following day, which may have influenced the decisions in St. Petersburg.

Two brief hints are given of the Tsar's state of mind. On July 30 Izvolsky telegraphed that in the opinion of the French Government, Russia, in her measures of precaution, "should not immediately take any step which may offer Germany a pretext for a total or partial mobilization of her forces." When he saw this telegram on the following day, after he had agreed to the general mobilization, the Tsar noted: "This telegram arrived too late." One wonders if the telegram was held up by Sazonov, for it was sent from Paris early in the morning. In spite of the mobilization, Nicholas may have continued to hope for peace, for on August 1 he instructed Sazonov to carry on the negotiations with the Austrian Ambassador, who had been instructed to begin a discussion with the Russian Minister. Interesting also is the statement of the Chief of the Naval Staff on July 31: "Yesterday evening the situation was very critical, not more than a 5 percent chance for peace; today it has greatly improved, one can

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already reckon 10 percent for peace." The Admiral thought that "Germany does not wish to make war" and had been so impressed by the Russian mobilization that she would agree to negotiations. Russia could not countermand the mobilization, but the Tsar was ready to promise "not to use our power in case our point of view is accepted in regard to the complete integrity and independence of Serbia." On that same day Nicholas did make such an offer to William II. But since he was already thinking of going to the front, his offer was probably intended as a gesture. The real expectation of the Russian Government is probably revealed by a bid for Rumanian assistance which was the fourth of its kind and definitely offered Transylvania as a reward.

The documents add nothing to our knowledge of the political exchanges between Russia and France, but the telegrams of the Military Attaché in Paris reveal clearly the attitude of French military circles. On July 28 Ignatyev reported that the Minister of War and the Chief of Staff had expressed "complete and enthusiastic readiness to fulfil truly the obligations of the alliance;" on July 29 he stated succinctly that "everything possible has been done in France, and the ministry is quietly waiting on events." The next day, July 30, he said that in the opinion of the French Minister of War, Russia might "hold up the course of our mobilization," which, however, would not prevent preparations from going ahead, "in so far as we refrained as far as possible from moving masses of troops." In a written report of the same date Ignatyev explained that these reservations were not to be interpreted as a tendency "to draw back at the last minute" and that they "had no effect on the normal course of France's preparations for war;" "no importance" was attached to the demonstrations against war, which were restricted to the boulevards, and the tone of the press caused "general satisfaction." If the documents say nothing about the effort of the French Minister of War — according to his post-war recollections — to get in touch with the Russian staff in order to insist that the Russian armies take the offensive as soon as possible in East Prussia, it is evident that the Russians had every reason to suppose that their ally would march with them. Presumably this confidence was the ultimate factor in their decision to order mobilization, just as it was the assurance of German help which caused Austria to refuse any and all suggestions of compromise or mediation.

From the Russian point of view, the great enigma was England. Benckendorff sent forty-six telegrams, in which he acutely analyzed the state of public opinion in England and the attitude of the British Government; he also wrote several letters, though it is doubtful if these were received in time to affect the decisions of his Government. Although the Ambassador felt certain that Grey personally accepted the Russian view and favored intervention if war came, he made it clear from the beginning that "England will not declare herself until the war becomes general and the European equilibrium is thereby called in question." Grey could not act because he was "not sure of his public opinion" and in spite of a constantly improving tone of the press, in spite of the fleet being held together, Benckendorff had to admit on July 29 that "war remains unpopular," on July 31 that the attitude of Parliament was still uncertain, and on August 1 that there was no sentiment in the country in favor of military action. It was only after the declaration of war against Russia and the occupa-

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tion of Luxembourg by the German army that "public opinion suddenly swung around completely." Probably these communications had little effect on Sazonov, for in the several appeals which he addressed to the British Government for a declaration of solidarity, the Russian Minister always took the position that if war came, England would have to come in, and there is no evidence that he was worried by the daily news from London.

On August 1 King George telegraphed to Nicholas II "a personal appeal" to remove German misapprehensions and to "leave still open grounds for negotiations and possible peace." In his reply, which was composed by Nicholas and Buchanan, the British Ambassador, the Tsar stated that he had been compelled to order mobilization "in consequence of complete Austrian mobilization," which was not the case. No such statement was made in the draft reply formulated by the Russian Foreign Office. This document recited that Germany and Austria had made mediation impossible, and then continued:

> Only when the favorable moment for pressure on Austria had passed did Germany declare herself ready to undertake mediation between Russia and Austria, but without making a precise proposal in this sense. At the same time Austria began to mobilize in a manner disquieting to us, and this was followed by the news, unexpected by me, of the declaration of war against Serbia and the bombardment of Belgrade. In face of these facts, and after I had convinced myself of the futility of negotiations which were only to gain time, I saw myself forced to mobilize.

Buchanan thought the Foreign Office draft couched "in too official language" and helped the Tsar to rewrite it. Who was responsible for the statement about "complete Austrian mobilization" must remain a mystery.

Three highly interesting documents are printed as appendices to the fifth volume. The first (no. 8) is a long dispatch, dated August 6, from Strandtmann, the Chargé in Belgrade, who carried on after Hartvig's death, describing the course of events in Serbia after the receipt of the ultimatum. He states that Pashich was "deeply shaken" by the rupture with Austria, for the Serbian Premier had hoped that "the far-reaching concessions" of the Serbian reply would suffice to prevent an armed conflict, for which Serbia was quite unprepared. The second document (no. 7) is a lengthy memorandum by Bronevsky, the Chargé in Berlin, on the situation in the German capital from the murder at Sarajevo up to July 29, when the Ambassador returned to his post. According to Bronevsky, the Serbian reply was handed to Jagow, the German Foreign Minister, on the morning of July 27, confirming the testimony of the French and Austrian Ambassadors; this doubtless helps to explain why Jagow was so unsympathetic to Grey's proposal for a conference, which he called a "court of arbitration." After the beginning of military operations against Belgrade, the Austrian Ambassador admitted that Jagow's professed ignorance of the Austrian demands before the presentation of the ultimatum "did not exactly correspond with reality." The German Government had not seen the final text, but "those demands which it was desired to put in the ultimatum had been communicated to the cabinet of Berlin." The third document (no. 6) is a similar memorandum by Ambassador Sverbeyev, continuing the narrative of events down to the rupture, which was published some years ago in English translation in Shilling's "How the War Began."

The problems of Russian policy which are left unsolved by this collection of

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documents will probably remain unsolved, for the Soviet editors have certainly ransacked the archives for available materials. The imperialistic aspects of that policy in Manchuria, Mongolia and Persia may very well predispose one to a harsh judgment of Russian policy in the Near East, for at times it was somewhat truculent towards Turkey. Nevertheless the impression left by a perusal of the documents is that Russian policy in the Near East was pacific, at any rate after the failure to block the mission of Liman von Sanders. Nor does it appear that Russia was exciting Serbia or contemplating war against Austria and Germany. Nevertheless the Russian Government was keenly aware of the unstable conditions prevailing from Vienna to Baghdad, and was feverishly pushing on its military and naval preparations in order to be ready for "the day" when it arrived; in this attitude it was at one with every other Great Power in Europe. So far as one can judge, "the day" — Sarajevo — arrived unexpectedly, when Russia was not yet fully prepared. But Russia realized that the Austro-German program of action against Serbia, if successfully executed, would destroy the position so laboriously built up by Russian arms and Russian diplomacy during many decades, and therefore, ready or not, Russia had to fight. Her reaction was immediate, instinctive and irrevocable. But, in the reviewer's opinion, it is not proved by these documents that the Russian Government desired or worked for war in July 1914. It stated its conditions for keeping the peace: respect for the integrity and independence of Serbia, and it repeatedly declared its willingness to negotiate. But it assumed, as it was bound to assume after the ultimatum, that these conditions would not be accepted by Austria, and it therefore began military preparations in order to be able to help Serbia effectively. Given the criteria of world politics which were universally accepted in 1914, Russia could not have been expected to act otherwise, and to this day it is difficult, not to say impossible, to comprehend why Germany expected her to act otherwise. Nevertheless the Russian mobilization was not ordered until Austria had declared war on Serbia and her guns had bombarded Belgrade. But for this premature action (Austrian mobilization would not be complete for another fortnight), it might have been possible for diplomacy to arrange a compromise which would have averted war in July 1914.

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WHAT IS LEFT OF THE GOLD STANDARD?

By William O. Scroggs

WHILE there is much dispute today concerning the rôle which gold prices have played in the economic deterioration of the last five years, the disputants generally agree on at least one point: that the international gold standard has broken down. The causes and the effects of this breakdown, and the practicability of a prompt restoration of the gold standard by international action, are moot questions with which this article is not concerned. Its purpose is to indicate briefly the extent to which the nations have departed from gold and the extent to which the gold standard still survives.

An examination of some sixty-odd national currencies shows seventeen quoted in the foreign exchange markets at or near their gold parity, while the remainder show a depreciation ranging from 10 to 90 percent. This does not mean that seventeen countries are still on the gold standard. About one-half of these have succeeded in holding their currencies at nominal parity with gold only through such drastic measures as foreign exchange restrictions, the subsidizing of exports and the rationing of imports. Germany supplies the most conspicuous example of a country whose currency is quoted in the exchange markets at a price only slightly below its gold parity, although in business transactions involving external payments this currency shows an actual depreciation of more than 30 percent. For some time the Reichsbank's "cover" for its notes, in gold and foreign exchange, has been fluctuating around 2 percent. Obviously, Germany is no longer on the gold standard, and the German reichsmark is no longer stable. The highly complicated system of "blocked" reichsmarks has in effect created for Germany a whole series of subsidiary exchange rates with as many different discounts from parity as there are channels through which the blocked currency is handled. The action of the Foreign Exchange Control Board in July, calling upon German exporters to refuse payment in German money from their foreign customers, was virtually a repudiation by the Reich government of its currency. And yet, on paper, Germany was still a gold standard country with a stable currency.

What Germany has done on a large scale, other countries with nominally stable currencies have done in less degree. Included in this group are Bulgaria, Czechoslovakia, Hungary, Italy, Latvia, Poland, and Rumania. They have maintained their currencies at or very near gold parity by restrictions on foreign exchange or other devices. Early in 1934 Czechoslovakia, one member of this group, found that its exchange restrictions would not suffice to sustain the value of its currency at par and was confronted with the alternatives of formally abandoning the gold standard or of revaluing the crown. It chose revaluation and reduced the gold parity of its currency by 16⅔ percent.

With such varied monetary arrangements in operation and with the legal status of many currencies differing so markedly from their status in fact, it is not practicable to draw a sharp line between the countries which are on a gold basis and those which are not. For some countries, "going off gold" was not so

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definite and formal as it was in the case of Great Britain and the United States. A country may insist that it is still "on gold" so long as its currency is exchangeable practically at par with currencies of other countries which are indisputably on a gold basis. Hence a few countries are always in a kind of twilight zone, having a fair claim to be on gold in one month and a very poor claim the next, as their currencies move up or down in the exchange markets. The value of foreign exchange on countries which export large quantities of agricultural products is often subject to considerable seasonal variation. When such a country has succeeded in holding its currency close to parity, it may have a much better claim to be "on gold" at crop-moving time than six months later.

The difficulty in designating categorically the gold standard countries of the world is increased by the changed conception of the gold standard itself. Before the World War no country was regarded as being on the gold standard proper unless it redeemed its credit currency in gold on the demand of the holder. Today the classical form of the gold standard is virtually obsolete, and it is now referred to as the gold-coinage standard to distinguish it from the more modern gold-bullion standard. Most of the countries which were driven off gold during the war returned to the gold standard between 1925 and 1928, but they modified it to fit new conditions. As a means of economizing in the use of gold and also as a check on the hoarding of the metal, they no longer struck gold coins or redeemed their bank notes with gold in any form except gold bars, the smallest of which had a value of about $8,000. Holders of small amounts of notes could not obtain gold for them at a central bank, even though the country was on the gold standard.

Still another means of economizing in the use of gold was the establishment by many countries of a gold-exchange standard in lieu of the gold-coinage or gold-bullion standard. Under this system a central bank would use the foreign exchange of gold-standard countries instead of gold itself for the redemption of its notes. The gold-exchange standard was useful as a transitional device, but the departure of Great Britain from the gold standard in September 1931 revealed its weakness, and the shrinkage in the value of sterling reserves in the countries using this monetary basis created severe disturbances.

The United States was the last important country to relinquish the gold-coinage standard. By the Gold Reserve Act of January 30, 1934, it adopted the gold-bullion standard and devalued the dollar 41 percent. Inasmuch as the new law leaves it within the discretion of the President further to reduce the dollar to as much as 50 percent of its former parity, and inasmuch as none of the credit currency of the United States is now redeemable in gold, the new system has been characterized by some financial authorities as an approach to the gold-bullion standard rather than its full realization. With the export of gold under strict government control, the degree to which the American system approaches the gold-bullion standard of post-war Europe will depend on the liberality of the government's policy in releasing gold for shipment abroad.

On the basis of these generalizations it is possible to classify the countries of the world according to their proximity to the pre-war gold standard. The sixty-odd nations for which data are readily available fall into eight groups:

1. Countries whose currencies are still at their pre-war parity: Albania, Dutch East Indies, Netherlands, Switzerland.

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2. Countries whose currencies have been revalued since the war and have been maintained at their new parity without restrictions on foreign exchange: Belgium, Danzig, France, Lithuania.

3. Countries whose currencies have been revalued and maintained at their new parity, but in most instances only through restrictions on gold movements or on foreign exchange: Bulgaria, Czechoslovakia, Germany, Hungary, Italy, Latvia, Poland, Rumania, Soviet Union, United States.

4. Countries whose monetary systems are based on the dollar, and which have been affected by changes in its purchasing power: Cuba, Dominican Republic, Haiti, Honduras, Panama, Philippines.

5. Countries which returned to the gold standard after the war without revaluing their currencies, but which have again gone off gold: Australia, Argentina, Colombia, Canada, Denmark, Egypt, Irish Free State, Japan, British Malaya, Mexico, Nicaragua, Norway, Paraguay, Salvador, Siam, Sweden, Union of South Africa, United Kingdom, Venezuela.

6. Countries which returned to the gold standard after the war with a revalued currency, but which are again off gold: Austria, Bolivia, Chile, Ecuador, Estonia, Finland, Guatemala, Greece, India, Peru, Portugal, Jugoslavia.

7. Countries which have not formally returned to the gold standard since the war: Brazil, Costa Rica, Spain, New Zealand, Turkey, Uruguay.

8. Countries adhering to the silver standard: Abyssinia, China, Persia.

The countries in groups 1 and 2 are on the gold standard. All of those in group 3 have imposed some sort of restriction on the movement of gold or on dealings in foreign exchange. In the case of the United States this control is obviously not needed to hold the dollar up to par, but the status of the other countries is equivocal. Germany, as stated elsewhere, is clearly no longer on the gold standard. The Soviet Union maintains stability by a monopoly of foreign exchange transactions. The currencies of many other countries in this group would probably lose part of their external value if existing exchange restrictions were removed. The countries in group 4 have only partial monetary systems of their own, and they rely in large measure on the American dollar for currency. Their system may be described as the dollar-exchange standard.

The remaining groups are definitely off the gold standard. Turkey has been off longest, having suspended gold payments in 1915. Several countries whose currencies are greatly depreciated — notably, Brazil and Jugoslavia — have never officially abandoned the gold standard. On the other hand, New Zealand and Uruguay, which suspended the gold standard during the war and did not officially reëstablish it, temporarily attained *de facto* stabilization at parity before the beginning of the depression. Persia, one of the few countries on a silver standard, made an effort in 1932 to link its currency with gold, but has since abandoned the undertaking.

Although the countries which are unqualifiedly on a gold basis can now be counted on one's fingers, it would be an egregious error to infer from this fact that the gold standard is playing a minor rôle in the economic life of the world. Gold is still the international yardstick for measuring values. Nations which for years have been off the gold standard continue to use gold in effecting international settlements, and they are striving by every means to build up larger gold reserves.

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PLENTY AND WANT IN NEW ZEALAND

By Marc T. Greene

DEPRESSION in New Zealand has been, in a manner of speaking, only relative as compared to conditions in most of the rest of the world. That is to say, until 1930 the British Empire's oldest Dominion had known a prosperity which had maintained the standard of living at a high and rarely-varying level. During the past four years this standard has been lowered very materially, but not to the point of destitution or any widespread distress.

New Zealand is, politically and socially, somewhat apart from the world and well content to remain so. But its economic well-being depends almost entirely upon the disposition of its primary products abroad, particularly to the home country. Those products are wool, frozen or chilled meat, and butter and cheese. As these bring high or low prices, so does New Zealand prosper or want. There is hardly any other country in the world so dependent upon its primary products — the products, broadly speaking, of the soil.

When times are bad, people wear less wool and more cotton or other substitutes, they eat less butter and more margarine, use less of the milk from the cow and more of that from the tin can. Four years or more of these tendencies have hit New Zealand very hard indeed. A year ago you could have bought out half the sheep ranchers of the Dominion had you offered them a dollar each for their animals, and you could buy in the meat-markets the highest grade of lamb and mutton chops for ten cents a pound or even less. You could live on the best of all kinds of meat cheaper than upon bread and cheese in most other lands. Even now there are a score of restaurants in both Wellington and Auckland where the regular charge for a table d'hôte meal is a single shilling, and that includes soup, an ample portion of either beef, mutton or spring lamb, fresh vegetables and dessert.

But that is no good to the primary producers. It is even more distasteful to the retailers, scores and scores of whom have been driven into bankruptcy. If the necessity exists in a country like America to raise retail prices, it exists infinitely more in a country like New Zealand, which is agricultural and stock-raising, and industrial only in negligible degree. How to do that has been engaging the attention of political and economic leaders for several years and many of them, especially those who have recently been in the United States, are clamoring for the adoption in New Zealand of a modification of the recovery measures in vogue there.

Indeed, in the "relief schemes," so-called, New Zealand is, and has been since 1931, working along broadly similar lines. When the jobless of the Dominion began to increase by the hundreds and thousands, the Government, which is a "national" coalition of the former Reform and United Parties, decided to subsidize public works in the various towns and boroughs and also to subsidize farm labor. Thus the unemployed were put to work on the roads, in laying out parks and playgrounds, in railway extension and dock building, on housing projects, in afforestation work, and on farms where government aid enabled the farmers to employ additional labor. This has cost the

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Government to date several millions of pounds, which is a good deal for a population of scarcely 1,500,000 people; and it has had to be raised by a ten percent sales tax and by an "unemployment tax" which deducts a shilling in the pound from all salaries and wages, however small. Government economies, moreover, have included a reduction in the old-age pension — which New Zealand was one of the first countries to adopt — as well as in all other pensions, and a ten percent cut in federal pay.

Yet the "relief schemes" are open to objection on many grounds. In the first place they are generally non-productive. More than half of the men employed on them have been and still are shoveling dirt and blasting rocks on the highways. Worse than that, they provide a wage barely enough to exist upon and in that connection are often referred to unpleasantly as worse than the hardships of the Russian Five Year Plan. Single men often receive as little as fifteen shillings a week and rarely more than twice that, while married men are paid ten shillings extra for each member of the family. This does not mean, of course, day-by-day work week after week. No one on "relief work" is regularly employed, for with more than 75,000 at present jobless it is quite impossible to provide more than an average of three days' employment out of six. On the farms, compensation for long hours of hard work is little more than actual subsistence, and New Zealand farmers, rugged Scotch stock for the most part, are notoriously hard taskmasters.

There is, then, much grumbling among the "relief workers." Often, too, there are "strikes of the unemployed." These occur when a group of men refuses to entrain for the camps, sometimes located in remote districts where the workers are maintained under very primitive conditions. There have been — as recently in England — marches of the workless upon Wellington, the capital. And three or four times the more resentful element has broken loose entirely, smashed windows and helped itself to food, clothing and jewelry.

And yet, as we have already seen, New Zealand has thus far avoided a degree of depression bringing actual distress, and at the moment there are evidences that the "corner has been turned," especially as the current wool sales have been marked by an increase over last year of more than 6,000,000 pounds. The relief pay, while small, has at least provided the bare subsistence which has been lacking in so much of the world. Private charity has done much; the old-age pension, now fifteen shillings a week, has assisted; and anything in the form of a "dole," even indirect, has been averted.

Yet it seems anomalous that there should be anything at all resembling a depression in what is proportionately beyond doubt the richest producing country in the world. Why is it that with meat so plentiful, with a profusion of vegetables and fruit produced by a rich and quickly-responsive soil, and with an unvaryingly-rich yield of wool, anyone in a country like New Zealand should want for the essentials of existence? Moreover, there is little or none of what is called "profiteering" in the Dominion, little or no exploitation of producer or consumer by middlemen, and no "rings" or combines of any importance to restrain fair competition. And yet, though no one is starving, there is so great a deprivation of comforts as to cause a good deal of unrest even among a people so proverbially patient and forbearing as New Zealanders. It is no easier to answer this question offhand than to answer approximately similar ones in

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other countries of rich primary production where so much more has been grown and raised than can be sold. Yet it is reasonably clear that a man who is trying to live on five dollars a week cannot buy much meat even at ten cents a pound nor much clothing even if he can secure, as in New Zealand, a good suit of woolen cloth for twenty-five dollars.

The reason he is compelled to try and exist on five dollars a week is that the overseas markets for the primary products on which his country depends have slumped almost to the disappearing point, directly and indirectly depriving thousands of people of their jobs. Were you to investigate the unemployment position in New Zealand you would be surprised to discover how large a proportion of professional men are on "relief work," not only clerks and "white collar" men generally, but lawyers, dentists and even doctors. Such people have always been accustomed to a good standard of living, and so have their ancestors back to the time of the pioneers in this exceedingly youthful land. They have never, or very rarely, experienced even the "bad times" which have been more or less periodic elsewhere, to say nothing of trials such as those of the present. That is why a degree of depression which would little disturb a European country is so upsetting in New Zealand.

But it is not only the failure of overseas markets which has brought woe to the Dominion's primary producers and through them to almost every class in the community. It is the economic nationalism that has been developing to a surprising degree even inside the Empire family. If the Ottawa Conference was expected to check this ever-growing spirit neither New Zealand nor Australia has been able to read anything but failure into it — though in the case of Australia it is more or less a case of being hoist with her own petard, for she is notorious for her economic jealousy. But about all New Zealand got out of Ottawa was a small concession as to meat, which is little good in the present state of the overseas markets, and a reduction of the Canadian duty on butter. That duty, more than doubled a few years ago, was cut down fifty percent. But in view of the marked decrease in demand even that concession left the position pretty nearly where it was before, which means a loss in New Zealand's export revenue of at least two million pounds a year. It was a hard blow and the moral damage is only less than the economic.

On the other hand, the Dominion's tariff barriers are themselves unconscionably high and the idea of imperial free trade has gained few adherents here. The Government is pointing with pride to a 1933 favorable trade balance of nearly £20,000,000, but a marked falling off in imports accounts for much of that rather than an increase in exports. There is nothing particularly healthful or comforting in favorable trade balances achieved in such fashion and a good deal of food for anti-tariff argument, especially when it is found that New Zealand's imports last year were the lowest since 1912. Moreover, it indicates but too clearly a significant lowering in purchasing capacity.

Yet the Dominion's bank surplus of deposits over advances during 1933 amounted to more than £14,000,000. Such a surplus, combined with a drop below the average annual exports of £6,000,000, discovers a lack of confidence and a temerity in spending among the community's well-to-do classes. This lack of confidence is based very largely on a growing restiveness in regard to the Coalition Government. Reduction of imports would seem to disclose an

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opportunity and a need for secondary industries, and the immediate result of the establishment and success of these would be a reduction in unemployment and a restoration of former standards of living. Yet no such encouragement is given either by the banks or by the Government. The banks refuse to lend and thus to assist the situation by putting the huge sums on deposit into circulation, and the chief reason for such a seemingly obstructive policy is the encouragement to hoard found in the Government's exchange policy. The Government some eighteen months ago fixed the exchange on London at a 25 percent premium and refuses to heed all the demands to abolish the premium. Another result is the holding of Dominion funds in London.

Thus the country generally is becoming very much dissatisfied with the Coalition Government which, like that in England, was set up as an emergency measure. It combined the former Reform and United Parties (more or less the equivalent of the Liberal and Conservative Parties of Britain), under their respective heads, the present Prime Minister Forbes and Finance Minister Coates. The only opposition is the Labor Party, articulate but too small to be effective and without the confidence of other than the labor element.

New Zealand has, like Australia, borrowed a great deal of money abroad and, also like Australia, spent it recklessly when times were good. It has borrowed so much that it has a per capita debt of more than $900 and its external loans demand no inconsiderable part of the country's entire revenue in interest payments. A large portion of the English debt has recently been "converted" to a lower rate of interest, a proceeding which, called by whatever name or entered into by bondholders with whatever seeming willingness, is nothing more nor less than a form of repudiation. Some of the proceeds of these loans have been applied to relief measures and more to interest payments on other loans.

Probably nowhere in the world is the American experiment being watched more anxiously and with closer interest than in New Zealand. In its essentials it is practically the thing advocated for the Dominion by the large element which holds official policy largely responsible for the slow progress of recovery here. The New Zealand press, with but one or two exceptions ultra-conservative, generally avoiding a definite position on any moot question, timid in the face of the Government and the large interests, banking or otherwise, regards the American procedure askance and is generally pessimistic in its fear of "radical" measures. It is far from favoring innovations so "socialistic" as government control of hours and rates of work. In short, in common with the usual British tendency, nowhere more manifest than in this Dominion, it looks with apprehension upon any departures from time-honored methods.

Nevertheless, a more progressive tendency is becoming increasingly articulate in New Zealand. The younger generation is clamoring for an abandonment of Victorianism — political, economic and social. It has been said of New Zealand that it is the most Victorian of all British Dominions, and a good portion of its people still take that as a compliment. But the younger business men and most of the intellectuals are becoming impatient of ultra-conservatism and they are hoping with scarce-concealed eagerness for the success of the American experiment in order that they may insist upon its adoption here.

The Dominion's public debt of more than £280,000,000 is a heavy burden for a country whose entire population, including 71,000 of mixed Polynesian

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blood, scarce exceeds 1,500,000. This brings the per capita debt to about £182, normally more than $900. Interest charges on so huge a sum eat up too much of the nation's revenue for its peace of mind or for its economic equilibrium. Yet, quite as in the case of Australia's astounding national debt of a billion and a quarter pounds shouldered by scarce 6,000,000 people, there seems no immediate prospect of reduction.

And yet despite all this New Zealand has succeeded in keeping the income tax down to seven pence in the pound — on incomes below three hundred pounds — as against five shillings in the pound in England. Moreover, the New Zealand exemption is as high as two hundred and ten pounds, with liberal qualifications. The rate rises slowly, generally at about one one-hundredth of a penny in the pound until, at incomes of £1500 or more, the tax becomes about one shilling, sixpence to the pound. And as there are very few millionaires in New Zealand — very little, indeed, of wealth as understood in America — the state gets no large revenue from taxes and super-taxes on huge incomes.

New Zealand is perhaps the most thoroughly Anglo-Saxon country of any today. The immigration that supplemented the descendants of the pioneers of only a hundred years ago has largely fallen off during the depression, and the "assisted passage" policy, that brought out more than two thousand in 1926, has practically been abandoned.

This termination of what would seem to be an admirable colonizing policy is due to many factors — the depression, the fear of increasing the number of the unemployed, the lack of inducement to the individual, and so on. Yet a wise and carefully-planned scheme of colonization appears to be New Zealand's main hope for the future. No one doubts that the Dominion — the total area of which is about that of Japan proper — could support under normal conditions at least ten millions. Millions of acres of land at present unproductive yet potentially of value both for grazing and for growing are said to be purchasable at an average of five shillings an acre. This land, according to experts, could at an average expenditure of £5 an acre be made worth four to five times that amount in an equal number of years. Three acres of land so improved is computed to be able to graze two cows in full milk without other feeding. Such are the land possibilities in this richest of producing countries. And it seems that eventually it will be up to Britain to help put her "pet" Dominion on a more stable economic basis by inaugurating, with New Zealand's coöperation, a colonization scheme on a large scale as soon as there is definite improvement in general economic conditions.

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SOME RECENT BOOKS ON INTERNATIONAL RELATIONS

By William L. Langer

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General: Political and Legal

DEMOCRACY AND A CHANGING CIVILISATION. By JOHN A. HOBSON. London: Lane, 1934, 182 p. 2/6.

An indictment of the dictatorial proclivities of capitalism, which can be countered only by a democratic planned order.

THESE TIMES. By J. A. SPENDER. London: Cassell, 1934, 126 p. 2/6.

A telling indictment of dictatorship and the all-powerful state, by a well-known British writer of liberal persuasion.

REVOLUTION AND RECOVERY. By R. B. MOWAT. London: Arrowsmith, 1934, 232 p. 6/.

A prolific British historian reviews the political and economic developments of the past lustrum from the good old liberal standpoint.

RIVOLTA CONTRO IL MONDO MODERNO. By I. EVOLA. Milan: Hoepli, 1934, 424 p. L. 35.

One of the most elaborate critiques of European civilization, the author denouncing the individualism and materialism of our age and demanding a return to the spiritual traditionalism of the past.

FRAGILITÉ DE LA LIBERTÉ ET SEDUCTION DES DICTATURES. By W. DRABOVITCH. Paris: Mercure de France, 1934, 240 p. Fr. 12.

A study in political philosophy and social psychology.

PREFACE TO ACTION. By GEORGE G. E. CATLIN. New York: Macmillan, 1934, 319 p. $3.00.

A general psychological and sociological critique of our social structure, by an English scholar.

GOVERNMENT IN TRANSITION. By LORD EUSTACE PERCY. London: Methuen, 1934, 243 p. 7/6.

A stimulating discussion, with some treatment of the larger aspects of present-day international relations.

ENTMILITARISIERTE ZONEN. By KURT ROSENBERG. Zeulenroda: Sporn, 1933, 72 p. M. 4.

The international law of demilitarized zones. A technical monograph.

THE SOVIETS AT GENEVA. By KATHRYN W. DAVIS. Geneva: Kundig, 1934, 315 p. Fr. 5.

The author neglects the political problem, being concerned entirely with the means and extent of Russian coöperation with the League since its inception.

THE MENACE TO OUR NATIONAL DEFENCE. By SIR NORMAN ANGELL. London: Hamish Hamilton, 1934, 170 p. 3/6.

The well-known British pacifist here argues that there is no adequate defense against air attack. Armaments and alliances being equally ineffectual, the only security against war lies in collective action to protect individual nations.

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WAR AND A CHANGING CIVILISATION. By C. Delisle Burns. London: Lane, 1934, 154 p. 2/6.

A brief popular treatment, going over the familiar arguments against war as an instrument of national policy.

KRIG ELLER FRED. By Orrar Wallengren. Stockholm: Bonniers, 1934, 245 p.

A brief but keen analysis of the broader causes and results of war, with some discussion of the movement for peace.

LA GUERRE, NOTRE MÈRE. By Ernest Junger. Paris: Michel, 1934, 256 p. Fr. 15.

A resurrection of the hoary military virtues.

L'INTERPRÉTATION DU PACTE BRIAND-KELLOGG PAR LES GOUVERNEMENTS ET LES PARLEMENTS DES ÉTATS SIGNATAIRES. By A. N. Mandelstam. Paris: Pedone, 1934, Fr. 25.

A French-Russian jurist reviews the documentary history of the famous pact.

BROADCASTING AND PEACE. Paris: International Institute of Intellectual Cooperation, 1934, 200 p. $2.00.

One of the publications of the Institute of Intellectual Coöperation.

THE ECONOMICS OF REARMAMENT. By Paul Einzig. London: Kegan Paul, 1934, 179 p. 6/.

A telling collation of figures, by a well-known financial writer.

DISARMAMENT AND EQUAL RIGHTS. By Richard Schmidt and Adolf Grabowsky. Berlin: Heymanns, 1934, 284 p.

A second special number of the *Zeitschrift für Politik*, covering some of the essential aspects of the disarmament negotiations in 1933 and 1934. The volume contains a number of able essays by German authorities, a useful collection of key documents, and an extensive descriptive bibliography.

A REFERENCE GUIDE TO THE STUDY OF PUBLIC OPINION. By Harwood L. Childs. Princeton: Princeton University Press, 1934, 105 p. $2.00.

Primarily an outline for a course on public opinion, with extensive bibliographical references.

STERBEN DIE WEISSEN VÖLKER? By Friedrich Burgdörffer. Munich: Callwey, 1934, 88 p. M. 1.60.

A study of biological aspects of the population problem, by an author whose works are said to have had a great influence on the policy of the present German Government.

LE RACISME. By Georges Lakhovsky. Paris: Alcan, 1934, 153 p. Fr. 15.

A French biologist shows that racial theories, if put into effect, are bound to lead to degeneration and collapse.

ERBLEHRE, RASSE, BEVÖLKERUNGSPOLITIK. By Philipp Depdolla. Berlin: Metzner, 1934, 128 p. M. 1.90.

A typical example of Nazi writing on the race problem.

THE STATESMAN'S YEAR-BOOK. Edited by M. Epstein. New York: Macmillan, 1934, 1,478 p. $5.50.

The seventy-first annual volume of a standard statistical and historical work.

General: Economic

INTRODUCTION TO WORLD ECONOMICS. By Kemper Simpson. New York: Harper, 1934, 311 p. $3.50.

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This is not a textbook, but a good general discussion of the economies of the United States, Great Britain, Germany and France. The author, a former economic expert in the service of the United States Government, tries to show how hopeless are ideas of national sufficiency and how much the economic life of the great nations depends upon international coöperation. He holds, therefore, that there can be no real recovery for America without a further extension of collaboration with the European Powers. The reader will find in this volume much of basic interest in the discussion of markets, money and banking, price levels and cost levels and capital movements.

STUDIES IN WORLD ECONOMICS. By G. D. H. Cole. New York: Macmillan, 1934, 292 p. $4.75.

Mostly essays already published elsewhere and dealing largely with the case against capitalism.

THE NEMESIS OF ECONOMIC NATIONALISM. By Joseph Johnston. London: King, 1934, 116 p. 4/6.

An able pamphlet, consisting primarily of a critique of Ireland's efforts to establish her self-sufficiency.

WELTWIRTSCHAFTS-RENAISSANCE. By S. Amir Hasan Meerza. London: Luzac, 1934, 161 p.

A bitter indictment of the European economic system, with special reference to the history of European trade with India and the East.

DIE GESCHLOSSENE WIRTSCHAFT. By B. Laum. Tübingen: Mohr, 1933, 503 p. M. 17.50.

An exhaustive sociological analysis of the problem of autarchy.

UNBALANCED BUDGETS. By Hugh Dalton and others. London: Routledge, 1934, 480 p. 15/.

A group of studies of the financial situation in fifteen different countries. The investigation lacks unity, but some of the individual studies are of high value.

L'OEUVRE DE LA RESTAURATION FINANCIÈRE SOUS LES AUSPICES DE LA SOCIÉTÉ DES NATIONS. By A. A. Poortenaar. Amsterdam: Pavis, 1934, 171 p. Fl. 3.90.

A useful summary of the League's action for the financial relief of Austria, Hungary, Greece, Bulgaria, Danzig and Estonia.

THE BANKING SITUATION. By Henry P. Willis and John M. Chapman. New York: Columbia University Press, 1934, 951 p. $5.00.

A large-scale analysis of post-war problems and developments.

LES MOUVEMENTS INTERNATIONAUX DE CAPITAUX. By J. Malpas. Paris: Domat-Montchrétien, 1934, 710 p. Fr. 50.

A scholarly analytical and statistical study of high value.

LA COLLABORATION INTERNATIONALE DES BANQUES CENTRALES. By Ramononjy Raherivelo. Paris: Domat-Montchrétien, 1934, Fr. 20.

A scientific monograph, dealing chiefly with the technique of international banking relations.

THE MONEY MUDDLE. By James P. Warburg. New York: Knopf, 1934, 282 p. $2.00.

One of the best non-technical books on the money problem, with special reference to the United States. The author, who served as one of the advisers to the American delegation at the London Economic Conference, gives an account of the fluctuations in the monetary policy of the Roosevelt Administration, and makes some keen criticisms of methods and aims.

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THE BREAKDOWN OF MONEY. By Christopher Hollis. New York: Sheed and Ward, 1934, 255 p. $1.50.

A stimulating historical essay, though somewhat loose and apparently not always well-informed.

LE PROBLÈME DES DETTES INTERALLIÉS. By Roger Picard and Paul Hagon. Paris: Plon, 1934, 288 p. Fr. 15.

A popular presentation, reflecting the traditional French view.

DIE DEUTSCHEN SACHLIEFERUNGEN AN FRANKREICH UNTER DEM DAWES UND YOUNG PLAN. By E. Pawlitzek. Nürnberg: Krische, 1934, 142 p. M. 4.50.

A German dissertation, useful as a collation of material on the question of deliveries in kind.

AN INTERNATIONAL OILMAN. By Sir Henri Deterding. New York: Harper, 1934, 126 p. $2.00.

The interesting autobiography of the head of the Royal Dutch Shell Company.

THE STORY OF PETROL. By C. Webber. London: Nelson, 1934, 217 p. 3/6.

A popular account of the world oil industry.

LE PROBLÈME MONDIAL DU BLÉ. By Paul de Hervesy. Paris: Alcan, 1934, 293 p. Fr. 30.

The author, a Hungarian diplomat, sets out to show that the world economic crisis is closely bound up with the whole problem of wheat production and distribution. As the result of a detailed and scientific study of figures he proves that neither the production nor the consumption of wheat in the world at large varies much from year to year, but that there is a wide divergence in costs and prices in the different countries. The situation as it is now has led to the ruin of the great agricultural populations in many countries, and their inability to buy has reacted upon prices and employment everywhere. The author therefore urges the establishment of an international wheat or corn office with power to regulate prices and distribution. The book is thorough and scholarly and represents a significant contribution to the study of the present crisis.

BRÉSIL. CAFÉ, 1934. By Leon Legray. Le Havre: Centre d'Études Économiques, 1934, 260 p. Fr. 20.

Another valuable work, the result of a thorough investigation into the whole Brazilian coffee situation by a French economist acting on the invitation of the Brazilian Government.

DIE EUROPÄISCHE KOHLENWIRTSCHAFT. By Georg Balzer. Hersfeld: Funk, 1934, 175 p.

A study of coal production, with special reference to the problem of international regulation of the hours of labor.

International Relations of the United States

THE COMING AMERICAN REVOLUTION. By George H. Soule. New York: Macmillan, 1934, 324 p. $2.50.

An attempt to see recent developments in their historical setting and to forecast the future.

STATESMANSHIP AND RELIGION. By Henry A. Wallace. New York: Round Table Press, 1934, 139 p. $2.00.

The Secretary of Agriculture discusses the ethical basis of the New Deal and its relationship to other reform movements.

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ELECTRONIC REPRODUCTION PROHIBITED

WILL ROOSEVELT SUCCEED? By A. Fenner Brockway. London: Routledge, 1934, 248 p. 6/.

A somewhat sensational study of the Rooseveltian policies, with the sub-title "A Study of Fascist Tendencies in America."

LA RÉVOLUTION ROOSEVELT. By Georges Boris. Paris: Gallimard, 1934, 222 p.

An intelligent French writer, editor of *La Lumière*, attempts to inform his countrymen objectively regarding the Roosevelt program.

RÉVOLUTION AMÉRICAINE. By Pierre Lyautey. Paris: Hachette, 1934, Fr. 12.

Another interesting French analysis, by a writer who travelled widely and discussed the situation with many important people.

N.R.A. UNPOLITISCHE BEOBACHTUNGEN. By E. B. Zürich: Oprecht und Helbling, 1934, 71 p. Fr. 2.

A reprint of articles published in the Swiss press by a Swiss correspondent in this country.

IT'S UP TO YOU. By Will Dunn. San Francisco: Author, 1934, 147 p. $1.00.

A vigorous indictment of the political and social system, ending in an appeal for strong leadership and the formation of a new national party to save true American democracy.

TARIFF RETALIATION. By Joseph M. Jones. Philadelphia: University of Pennsylvania Press, 1934, 352 p. $3.00.

A scholarly investigation of the repercussions of the Hawley-Smoot tariff. The book deserves wide reading, for it shows how profoundly the American tariff policy reacted upon the commercial policies of other nations and how seriously it affected the whole international trade situation.

THE HERITAGE OF FREEDOM. By James T. Shotwell. New York: Scribner, 1934, 145 p. $1.75.

A series of lectures surveying the course of American-Canadian relations and discussing the part the two neighbors may play on the stage of general world affairs.

THE UNITED STATES AND CUBA. By Harry Frank Guggenheim. New York: Macmillan, 1934, 284 p. $2.50.

A general survey of the history of the relations of the United States and Cuba, by the United States Ambassador from 1929 to 1933, with an explanation of the aims of American policy during the Hoover Administration and suggestions for changes in policy, some of them since adopted.

The World War

LA CRISE EUROPÉENE ET LA GRANDE GUERRE, 1904–1918. By Pierre Renouvin. Paris: Alcan, 1934, 639 p. Fr. 60.

This is the latest volume published in the splendid French series "Peuples et Civilisations," and seems beyond all question the best single history of the pre-war and war periods. M. Renouvin is an eminent French authority on the history of the war and has produced an impressive brief synthesis of the many factors in European and world affairs in the years covered by this volume. The book is by no means a purely political and military history, but a work which lays due stress on the economic and social factors. It is based on very wide reading in many languages and draws upon much of the valuable material published in recent years by the Russian Government. The viewpoint is, naturally, French, but M. Renouvin is decidedly a moderate, who knows too much about other countries to see affairs from a single standpoint. Unlike most French books, the volume is well-indexed. This is a book which no student of recent history can afford to be without.

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LES CAUSES DE LA NEUTRALITÉ DE LA SUISSE. By Maurice Henry. Paris: Jullien, 1934, 232 p. Fr. 30.
The best general study of Swiss policy during the war.

HIGH COMMAND IN THE WORLD WAR. By William D. Puleston. New York: Scribner, 1934, 343 p. $3.00.
A competent survey of the operations of the World War, with special reference to strategy, by an American officer already known for his book on the Dardanelles campaign.

THE WAR IN THE AIR. By H. A. Jones. New York: Oxford University Press, 1934, 504 p. $7.00.
The fourth volume of the official history.

CORONEL AND AFTER. By Lloyd Hirst. London: Davis, 1934, 278 p. 7/6.
An attractive semi-popular narrative, by an officer who took part in the operations.

DER SIEG DER DEUTSCHEN HOCHSEEFLOTTE AM 31 MAI 1916. By G. von Hase. Leipzig: Koehler, 1934, 128 p. M. 2.85.
The battle of Jutland, as seen by a German naval officer.

SCHWARZE GESELLEN. By O. E. Freiherr von Neuerburg. Leipzig: Payne, 1934, 279 p. M. 3.60.
The story of the German torpedo-boats and mine-layers retold.

NOTES AND COMMENTS ON THE DARDANELLES CAMPAIGN. By A. Kearsey. London: Gale, 1934, 148 p. 4/.
A guide to the sources and larger treatments of the campaign, by a British writer of military texts.

EN BELGIQUE AUPRÈS DU ROI ALBERT. By General Brécard. Paris: Calmann-Levy, 1934, 144 p. Fr. 8.
Reminiscences of the initial campaigns of the war.

POURQUOI ARRAS NE FÛT PAS PRIS. By General H. Mordacq. Paris: Plon, 1934, 236 p. Fr. 13.
A critical study of the Arras operations, by one of the best French military writers.

DIE MARNESCHLACHT 1914. By E. Kabisch. Berlin: Vorhut Verlag, 1934, 205 p. M. 4.50.
A reëxamination of the reasons for German failure.

DIE DEUTSCHE TRAGÖDIE AN DER MARNE. By Helmut Graf Moltke. Potsdam: Geller, 1934, 64 p. 70 Pf.
A brief apology and explanation by the German Chief of Staff.

SO SCHOSSEN WIR NACH PARIS. By H. Eisgruber. Berlin: Vorhut Verlag, 1934, 159 p. M. 3.85.
A dramatized account of the German long-distant bombardments of Paris in 1918.

IL PATTO DI LONDRA. By M. Toscana. Bologna: Zanichelli, 1934, 240 p. L. 15.
A revised edition of the best account of Italian intervention in the war.

ITALY'S PART IN WINNING THE WORLD WAR. By Girard L. McEntee. Princeton: Princeton University Press, 1934, 128 p. $2.00.
A technical military study of the Italian contribution.

L'ITALIA SUL MARE NELLA GRANDE GUERRA. By A. Balliano and G. Soavi. Turin: Chiantore, 1934, 233 p. L. 15.
A general narrative of Italian naval operations.

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LA BATTAGLIA DELL'OTTOBRE 1917. By A. Cabiati. Milan: Corbaccio, 1934, 446 p. L. 12.

One of the best scientific studies of the Italian disaster.

LA BATTAGLIA. By Enrico Caviglia. Milan: Mondadori, 1933, 310 p. L. 15.

The victor of Vittorio Veneto analyzes the Caporetto collapse as an error in strategy.

L'ESCERCITO ITALIANO IN FRANCIA E IN ORIENTE. By E. Grasselli. Milan: Corbaccio, 1934, 400 p. L. 12.

A systematic narrative of the Italian contingents in France and Macedonia.

DIE DEUTSCHE KRIEGSBERICHTERSTATTUNG UND PRESSE ALS KAMPFMITTEL IM WELTKRIEG. By Helmut Rathert. Grossenhain: Plasnick, 1934, 52 p.

An interesting dissertation analyzing the use of the press for military purposes during the war.

LA CENSURE POLITIQUE ET MILITAIRE EN SUISSE PENDANT LA GUERRE. By Eugène Broye. Paris: Attinger, 1934, 200 p. Fr. 25.

Another serious study of the war-time manipulation of the press.

Western Europe

DEMOCRACY AND NATIONALISM IN EUROPE. By Henry L. Stimson. Princeton: Princeton University Press, 1934, 88 p. $1.25.

Lectures at Princeton by the former Secretary of State, describing the historical background of recent European developments and aiming to answer the question whether nationalized democracies can avoid war and solve the problems imposed upon government by the industrial revolution.

EUROPE: A GEOGRAPHICAL SURVEY. By J. F. Bogardus. New York: Harper, 1934, 726 p. $4.00.

A general survey of modern European life from the geographic standpoint.

EUROPE BETWEEN WARS? By Hamilton Fish Armstrong. New York: Macmillan, 1934, 115 p. $1.25.

A compact examination of the main political currents in Europe today. Attention is paid to the struggle between conservatives and radicals within the Nazi Government, especially as affected by the deepening economic crisis in Germany; the conflict between Mussolini and Hitler for the control of Austria; the attitude of the Little Entente states towards *Anschluss* and a Hapsburg restoration; and the choices which seem open to French policy. The final chapter stresses the toll which dictatorship takes in the arts and sciences, and suggests some of the tasks which democracies must face if they are to save civil liberty and begin again the task of building up a system of collective security.

NEW GOVERNMENTS IN EUROPE. Edited by Raymond L. Buell. New York: Nelson, 1934, 440 p. $2.50.

A volume prepared by the staff of the Foreign Policy Association, designed to give the general reader an account of recent happenings in Italy, Russia, Germany, the Balkan States and Spain, with special reference to the political transformations and the spread of dictatorship.

LES NOUVELLES CONSTITUTIONS EUROPÉENNES ET LE RÔLE DU CHEF D'ÉTAT. By E. Gordon. Paris: Sirey, 1934, 436 p. Fr. 50.

A technical study of the post-war evolution of the executive power in Europe.

THE BOILING POINT. By H. R. Knickerbocker. New York: Farrar and Rinehart, 1934, 292 p. $2.50.

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A well-known journalist's interviews with European notables, on the whole inconclusive and rather disappointing.

LE BILAN MORAL DE L'EUROPE. By K. S. Chandan. Paris: Le Danubien, 1934, 200 p. Fr. 12.

A stimulating interpretation of recent happenings.

NINE ETCHED FROM LIFE. By Emil Ludwig. New York: McBride, 1934, 388 p. $3.00.

Personal evaluations of Mussolini, Stalin, Masaryk, Lloyd George, Briand, Rathenau, Nansen and Motta, with bits of the author's rather unimpressive philosophy.

LES INTRIGUES REVISIONNISTES CONTRE LES TRAITÉS DE PAIX. By D. Tomitch. Paris: Bossuet, 1934, 224 p. Fr. 5.

A collection of articles published chiefly in the *Revue Bleue* by an author opposed to any revision whatever.

ALBERT I, LE ROI SOLDAT. By Henri Liebrecht. Paris: Hachette, 1934, 88 p. Fr. 6.

A brief appreciation of the late King, by a high Belgian official.

LE ROI ALBERT, HOMME DE DEVOIR. By Paul Lesourd. Paris: Éditions des Portiques, 1934, Fr. 18.

Purports to be based upon unpublished material.

THE LIFE OF CARDINAL MERCIER. By John Gade. New York: Scribner, 1934, 312 p. $2.75.

A sober and well-balanced biography of the great Cardinal, by a Protestant admirer.

NEDERLAND EN BELGIE. By H. T. Colenbrander. The Hague: Van Stockum, 1933, 182 p. Fl. 2.50.

A survey of the relations between the two countries, and a plea for closer understanding, by one of the leading Dutch historians.

POST-WAR FRANCE. By Paul Vaucher. London: Butterworth, 1934, 256 p. 2/6.

A new volume in the Home University Library series, dealing chiefly with political affairs. The book is marked by a strong French bias in its discussion of foreign relations.

LE DRAME FRANÇAIS. By Jacques Bardoux. Paris: Éditions des Portiques, 1934, Fr. 12.

A French political writer demands thorough reform of the state.

LA FRANCE VEUT UN CHEF. By Georges Viance. Paris: Flammarion, 1934, 252 p. Fr. 12.

One of many calls for strong leadership in the present crisis.

CRISI DE REGIME IN FRANCIA. By P. Nicolai. Rome: Cremonese, 1934, 92 p. L. 7.

The recent disorders as seen by a Fascist observer.

FRANCE — EN AVANT. By R. Bergerioux. Paris: Firmin-Didot, 1934, 202 p. Fr. 5.

A program of action towards national consolidation.

RESERVOIRS OF MEN. By Shelby C. Davis. Geneva: Kundig, 1934, 205 p. $2.00.

A most interesting pioneer study of the history of the French colonial troops from West Africa and their part in the French military system.

DEUTSCH-FRANZÖSISCHE WIRTSCHAFTSBEZIEHUNGEN. By K. Loeffler. Freiburg: Waibel, 1934, 154 p. M. 4.80.

An analysis of Franco-German economic relations, with some discussion of the growing intertwining of economic interests.

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DAS ENDE VON VERSAILLES. By O. Kriegk. Oldenburg: Stalling, 1934, 154 p. M. 3.40.

A popular outline of Nazi foreign policy and its aims.

L'ALLEMAGNE. By Edmond Vermeil. Paris: Éditions de Cluny, 1934, Fr. 10.

A general history of Germany since 1815, by a professor at the University of Strasbourg.

HISTOIRE DE LA "CULTURE" ALLEMANDE. By René Lote. Paris: Alcan, 1934, 320 p. Fr. 100.

A better book than the title suggests. The author, a professor at Grenoble, surveys the political and social life, the science and philosophy, the literature and the fine arts of modern Germany.

GESCHICHTE DES DEUTSCHEN VOLKES UND SEINER FÜHRER. By Rudolf Herzog. Leipzig: Koehler, 1934, 367 p. M. 4.80.

A romanticized account of German history in terms of leadership, misleading especially on the post-war period.

THE GROWTH OF EXECUTIVE POWER IN GERMANY. By Harlow J. Heneman. Minneapolis: Voyageur Press, 1934, 256 p. $2.50.

A scholarly study of the German presidency as an institution.

FABULOUS MONSTER. By J. Daniel Chamier. London: Arnold, 1934, 355 p. 15/.

The career of the former Emperor William reviewed, by an extremely sympathetic writer.

DAS SCHRIFTTUM DES NATIONALSOZIALISMUS. By E. Unger. Berlin: Junker und Dünnhaupt, 1934, 187 p. M. 3.80.

A most valuable bibliography of Nazi writings from 1919 to 1934.

A HISTORY OF NATIONAL SOCIALISM. By Konrad Heiden. London: Methuen, 1934, 386 p. 15/.

This history of the Nazi movement has already been commended. It should be carefully noted that the English translation omits a large part of the historical narrative, which was the most valuable part of the book.

THE BERLIN DIARIES. By Helmut Klotz. New York: Morrow, 1934, 303 p. $2.75.

These diaries, purporting to be the work of a high German officer, cover the crucial period from May 30, 1932, to January 30, 1933, and give an inside view of the crisis that raised Hitler to power. Their authenticity seems questionable.

LA REVOLUCIÓN NACIONAL-SOCIALISTA. By Vincente Gay. Barcelona: Bosch, 1934, 372 p. Pes. 6.

A general account of the Nazi movement, its philosophy and its legislation.

DIMITROFF CONTRE GOERING. Paris: Carrefour, 1934, 360 p. Fr. 15.

A vigorous presentation of the case against Goering in the matter of the Reichstag fire.

TELS QU'ILS SONT. Paris: Carrefour, 1934, Fr. 12.

Thumb-nail biographies of some thirty Nazi leaders, with some good photographs.

JUDAISM, CHRISTIANITY AND GERMANY. By Cardinal Faulhaber. New York: Macmillan, 1934, 125 p. $1.50.

A translation of the five remarkable Advent addresses of 1933 in which the eminent German churchman declared war on the Nazi religious ideas and policies.

GERMANY UNMASKED. By Robert Dell. London: Hopkinson, 1934, 272 p. 5/.

A British journalist, formerly a friend of Germany, bitterly attacks the new régime and calls for a coalition to destroy Naziism and if necessary break up Germany itself.

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WHY I LEFT GERMANY. By a German-Jewish Scientist. London: Dent, 1934, 214 p. 6/.

A fairly objective account of the Nazi treatment of Jews during the first months of the new régime.

LES DESSOUS DE LA JUSTICE ALLEMANDE. By Alfred Apfel. Paris: Nouvelle Revue Française, 1934, Fr. 15.

An exposure of German judicial methods, by a man who was at the head of the famous list of deportees.

L'ALLIANCE DES FASCISMES. By E. N. Dzelepy. Paris: Baudinière, 1934, Fr. 10.

An indictment of the alleged German-Italian conspiracy, based upon published documents.

DER DEUTSCHE FREIHEITSKAMPF. By Ernst Graf Reventlow. Berlin: Zeitgeschichte, 1934, 400 p. M. 28.

A full-length account of the victory of German nationalism, by one of its best-known pre-war exponents.

AUFBAU IM OSTEN. By Erich Koch. Breslau: Korn, 1934, 217 p. M. 4.

One of the ablest exponents of the Nazi policy examines the agrarian program for the eastern provinces.

IM KAMPF UM DIE SEELE DES DEUTSCHEN BAUERN. By R. W. Darré. Berlin: Steegemann, 1934, 62 p. M. 1.

Six addresses delivered by the Nazi Minister for Agriculture between 1931 and 1933.

NATIONALSOZIALISTISCHER WIRTSCHAFTSAUFBAU. By P. Blankenburg and M. Dreyer. Berlin: Zentralverlag, 1934, 248 p. M. 4.50.

The economic policy of the Nazis in statistics and pictures.

DIE VOLKSABSTIMMUNG IM SAARGEBIET. By C. Groten. Berlin: Weidmann, 1934, 145 p. M. 3.60.

A competent German view of the coming plebiscite.

LA VERITÉ SUR LA SARRE. By J. Galtier-Boissière and A. L. Serurier. Paris: Le Crapouillot, 1934, Fr. 12.

An illustrated survey of the Saar area.

SAAR-ATLAS. Gotha: Perthes, 1934, 104 p.

Excellent maps, illustrations and explanatory text covering the geography, history, culture and industry of the Saar basin.

CE QU'IL FAUT SAVOIR DE LA SARRE. By Comte Jean de Pange. Paris: Éditions des Portiques, 1934, Fr. 10.

A popular review of the question and the French stand.

LA LIQUIDATION FINANCIÈRE DE LA GUERRE ET LA RECONSTRUCTION EN EUROPE CENTRALE. By A. Antonucci. Paris: Girard, 1934, 463 p. Fr. 50.

A thorough study of the financial aspects of the liquidation of the Austro-Hungarian monarchy.

DIE NIEDERWERFUNG DER FEBRUARREVOLTE. By E. Ratzenhofer. Vienna: Verlag der Militärwissenschaftlichen Mitteilungen, 1934, Gr. 60.

A brief statement of the military operations against the Vienna socialists in February 1934.

VIENNA DIARY. By Naomi Mitchison. London: Gollancz, 1934, 287 p. 5/.

A naïve and impressionistic account of Viennese affairs in February and March 1934, by a woman who went to relieve socialist sufferers.

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DIE SCHWEIZERISCHE ZOLLPOLITIK. By Kurt von Steiger. Berlin: Schenk, 1933, 281 p.
A systematic account of Swiss tariff policy from 1900 to 1930.

L'ÂME ITALIENNE. By Count Sforza. Paris: Flammarion, 1934, 249 p. Fr. 12.
A beautiful appreciation of the Italian mind and the forces that have gone into its formation, by a brilliant writer who needs no introduction.

L'ITALIE. By Egidio Reale. Paris: Delagrave, 1934, 156 p. Fr. 12.
A brief survey of the recent political evolution of Italy, followed by a useful collection of the crucial documents upon which the Fascist régime rests.

EL FASCISMO. By Nazario Cebreiros. Madrid: Sáez, 1933, 277 p. L. 5.
A systematic history of the origin, doctrine and organization of Fascism from the end of the war to its victory in 1922.

SCRITTI E DISCORSI. By Benito Mussolini. Volumes II, VIII. Milan: Hoepli, 1934, 362, 294 p. L. 15 each.
The latest volumes of the official edition of the Duce's speeches and writings. Volume II covers the period from March 1919 to October 1922, and Volume VIII the years 1932–1934.

GOSPEL OF FASCISM IN FIVE PARTS. By Kirton Varley. New York: Generation Press, 1934, 227 p. $2.50.
A study of Fascism in Italy and Austria by a writer who claims to have originated the idea.

THE HISTORY OF SPAIN. By Louis Bertrand and Sir Charles Petrie. New York: Appleton, 1934, 579 p. $4.00.
A competent general narrative of Spanish history since A.D. 711, rather weak on the most recent period.

THE ORIGINS OF MODERN SPAIN. By J. B. Trend. New York: Macmillan, 1934, 220 p. $2.50.
An interesting study of the intellectual evolution of Spain since about 1868, by a professor of Spanish in the University of Cambridge.

HISTORIA DEL REINADO DE ALFONSO XIII. By Melchior Fernández-Almagro. Barcelona: Montaner y Simon, 1934, Pes. 18.
A valuable and dispassionate scholarly treatment of the political evolution of Spain between 1902 and 1931.

Eastern Europe

HISTOIRE DE LA TCHÉCOSLOVAQUIE. By Kamil Krofta. Paris: Stols, 1934, 176 p. Fr. 20.
The French translation of one of the best brief histories of old Bohemia and modern Czechoslovakia.

PRESIDENT MASARYK TELLS HIS STORY. By Karel Čapek. London: Allen and Unwin, 1934, 302 p. 7/6.
A translation of valuable talks with Masaryk, which throw much light on his early youth, his war activities, his philosophy, etc.

UN HOMME EUROPÉEN. EDOUARD BENÈS. By Louis Eisenmann. Paris: Hartmann, 1934, 160 p. Fr. 9.
A reliable brief biography and appreciation, written by an eminent French scholar on the occasion of Beneš' fiftieth birthday.

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EDUARD BENEŠ. By Jaroslav Papoušek. Prague: Svaz Národníko Osvobození, 1934, 181 p. Kč. 18.

This excellent general biography of Beneš gives an interesting account of his earlier years, and contains a bibliography of his writings.

O ČEM VÍM. By Jaroslav Kvapil. Prague: Orbis, 1934.

The recollections of a prominent Czech literary man, with important sidelights on political events and personalities of the war and post-war periods.

DIE BANK VON POLEN. By Josef T. Fajans. Zurich: Leeman, 1934, 123 p.

A succinct, scholarly study of the history of the Polish Bank from 1927 to 1933.

DIE RECHTSLAGE DES MEMELGEBIETES. By Joachim Hallier. Leipzig: Noske, 1933, 232 p.

A dissertation, consisting of a systematic analysis of the Memel Convention.

AN EXCURSION TO LITHUANIA. By A. A. Sacks. New York: Hudson Bay Press, 1934, 308 p. $3.00.

A description of travel in Lithuania after twenty years absence.

DAS FINANZSYSTEM LITAUENS. By D. Cesvičius. Berlin: Stilke, 1934, 112 p. M. 4.75.

A doctoral dissertation.

LETTLANDS ÖKONOMIST. Riga: Ministry of Finance, 1933, 177 p.

A collection of eleven authoritative essays on various aspects of Latvian economics.

IZ MOEGO PROSHLAGO. By Count V. N. Kokovtsev. Paris: 1933, 2 v.

The interesting and extremely valuable memoirs of the former Russian Prime Minister, important especially for the study of the origins of the war and the breakdown of the old régime.

ARTISTS IN UNIFORM. By Max Eastman. New York: Knopf, 1934, 261 p. $2.50.

The progress of the idea of "art in propaganda" and its devastating results on self-expression in Soviet Russia.

A HISTORY OF BOLSHEVISM. By Arthur Rosenberg. New York: Oxford University Press, 1934, 259 p. $3.75.

This is the English translation of an outstanding history of bolshevism as a movement. The writer, author of an excellent history of the German Republic, was formerly a communist and was therefore in close touch with the activities of the Third International. He is not only well-informed, but keen and analytical in his thinking. In this book he traces the rise of bolshevist theory and organization from Marx through Lenin, discusses in a broad way the revolution in Russia and the heyday of the Third International. There follows the story of the New Economic Policy, the clash between Lenin's successors and the evolution of Stalin's policies. His general conclusion, which has to a large extent been borne out by the facts since his book appeared in German two years ago, is that bolshevism as an international force is now practically dead and that the Soviet régime in Russia has evolved far in the direction of a bourgeois, national system. On the whole, this is one of the most instructive books yet published on the history of bolshevism.

THE SOVIET STATE. By Bertram W. Maxwell. Topeka: Steves and Wayburn, 1934, 383 p. $3.50.

A careful study of the political and legal organization of the bolshevik régime.

I QUATTRO ERRORI DI KERENSKI. By Giorgio Quartara. Turin: Bozia, 1933, 106 p. L. 6.

A competent critique of Kerensky's apologia.

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KOMMUNISTICHESKII INTERNATSIONAL V DOKUMENTAKH. Moscow: Partizdat, 1933, 1007 p.
A huge and valuable collection of documents on the Communist International.

KAPOOT. By C. Wells. New York: McBride, 1933, 264 p. $2.50.
Travel impressions of Russia and Caucasia, revealing the inefficiency of the Soviet régime.

RUSSIAN SEESAW. By Baron Michael Budberg. London: Hopkinson, 1934, 256 p. 7/6.
The autobiography of a young nobleman who joined the Young Communist League but finally fled the country.

ONE WOMAN'S STORY. By Mary Britnieva. London: Barker, 1934, 287 p. 8/6.
An Englishwoman's story of life under the Soviets, including the moving account of the arrest and execution of her Russian husband.

GOODBYE RUSSIA. By Evan Cameron. London: Hodder and Stoughton, 1934, 244 p. 12/6.
A narrative of relief work in the Black Sea area during the troubled period of the Russian counter-revolution.

LA COLLECTIVISATION DANS LES CAMPAGNES SOVIÉTIQUES. By Guido Miglioli. Paris: Rieder, 1934, 288 p. Fr. 15.
An illuminating account of present-day agrarian conditions.

FROM MOSCOW TO SAMARKAND. By Y. Z. London: Hogarth, 1934, 134 p. 6/.
A travel book, recounting a recent trip to Turkestan and Central Asia.

RED ROAD THROUGH ASIA. By Bosworth Goldman. London: Methuen, 1934, 277 p. 12/6.
A depressing picture of the bolshevization of Russian Asia.

DANUBE ET ADRIATIQUE. By G. Demorgny. Paris: Domat-Montchrétien, 1934, 336 p.
The former secretary of the Danube Commission surveys political and economic conditions in the Succession States.

TREATY REVISION AND THE HUNGARIAN FRONTIERS. By R. W. Seton-Watson. London: Eyre and Spottiswoode, 1934, 75 p. 2/.
A brief reëxamination of the whole knotty problem, by a well-known authority, intended in part as a reply to recent Hungarian propaganda for revision.

YUGOSLAVIE. By Jacques Augarde and E. Sicard. Paris: Éditions des Portiques, 1934, Fr. 12.
A general descriptive study.

LA YUGOSLAVIE POLITIQUE ET ÉCONOMIQUE. By B. Mirkovitch. Paris: Bossuet, 1934, 230 p. Fr. 20.
A more competent and scholarly survey of the same type.

The British Commonwealth of Nations

A HISTORY OF THE ENGLISH PEOPLE. EPILOGUE, v. II. By Élie Halévy. London: Benn, 1934, 704 p. 25/.
This latest volume of the monumental work of Professor Halévy covers the pre-war decade, the emphasis being on the domestic side of English history.

BRITISH COMMONWEALTH RELATIONS. Edited by Arnold J. Toynbee. New York: Oxford University Press, 1934, 235 p. $4.00.

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The proceedings of an unofficial meeting of representatives of various parts of the Empire at Toronto in September 1933.

BRITISH FOREIGN POLICY FROM 1815 TO 1933. By William Edwards. London: Methuen, 1934, 238 p. 5/.

A brief outline, intended as a school textbook.

THE CONSEQUENCES OF THE WAR TO GREAT BRITAIN. By Francis W. Hirst. New Haven: Yale University Press, 1934, 331 p. $5.00.

A general synthesis of considerable interest, forming the concluding volume of the British series of the great Carnegie "Economic and Social History of the World War."

CURZON: THE LAST PHASE. By Harold Nicolson. Boston: Houghton, Mifflin, 1934, 432 p. $4.50.

A significant book, forming the third and last volume of the trilogy of which the other two books are the author's "Portrait of a Diplomatist" and "Peacemaking." Nicolson served as secretary to Lord Curzon in the stormy years following upon the conclusion of peace. He gives an intimate character study of his chief as well as a provocative analysis of British policy in the years 1919–1925. His critical ability and brilliant style stamp the book as one of the most illuminating volumes on British policy in modern times.

FOREIGN RELATIONS IN BRITISH LABOUR POLITICS. By William P. Maddox. Cambridge: Harvard University Press, 1934, 268 p. $2.50.

Studies of this type are a very great aid in the understanding of international relations. Taking the Labor Party as only one of many comparable organizations, Maddox examines the growth and nature of its interest and stand in matters of foreign politics. This is not a systematic account of the attitude of the party in a chronological series of questions, but rather an analysis of the ideology of the workingman, of the leadership of the labor movement, of the propaganda activity of the party, its action through the press, its international connections and the formation and exercise of its influence in Parliament. The problem is by no means a simple one. In fact the Labor policy in foreign affairs, like most policies, was the result of a compromise. Maddox has made a very instructive contribution to the study of political ideology and of the springs of political action.

PREPARING FOR POWER. By J. T. Murphy. New York: P. Smith, 1934, 290 p. $2.50.

A critical inside story of the ups and downs of the socialist labor movement during and since the war, by an active executive.

C. P. SCOTT OF THE MANCHESTER GUARDIAN. By J. L. Hammond. London: Bell, 1934, 365 p. 12/6.

A splendid biography of the great editor of the *Manchester Guardian* and at the same time a valuable contribution to the history of British liberalism from the time of Gladstone to the present.

GOLDSWORTHY LOWES DICKINSON. By Edward M. Forster. New York: Harcourt, 1934, 287 p. $3.00.

A sympathetic though not uncritical biography of a well-known English liberal who took a leading part in the League of Nations movement and was a frequent writer on international affairs.

SPECIAL CORRESPONDENT. By Robert Bernays. New York: Putnam, 1934, 352 p. $3.00.

British liberal politics, colonial and European affairs, as seen by a bright young politician. Rather undigested.

THE ROYAL AIR FORCE. By Captain A. O. Pollard. London: Hutchinson, 1934, 288 p. 18/.

A concise history, based largely upon the official history of the war in the air.

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PRISON LETTERS. By Countess Markievicz. New York: Longmans, 1934, 330 p. $2.50.

These letters, written by the well-known Irish nationalist, are especially interesting for the light they throw on the background and course of the Easter Rising.

ULSTER WAS RIGHT. By Henry Maxwell. London: Hutchinson, 1934, 328 p. 6/.

A passionate and uncritical narrative of the Irish question from about 1900, adding nothing to existing knowledge of the subject.

SOUTH AFRICA. By J. A. I. Agar-Hamilton. London: Arrowsmith, 1934, 134 p. 3/6.

A general survey, in the "Modern States" series.

PERMANENT WAY THROUGH THE KHYBER. By Victor Bayley. London: Jarrolds, 1934, 288 p. 18/.

The fascinating story of the construction of the railway through the pass, by the engineer in charge.

RISE AND FULFILMENT OF BRITISH RULE IN INDIA. By Edward Thompson and G. T. Garratt. London: Macmillan, 1934, 702 p. 21/.

The most up-to-date and on the whole one of the most satisfactory accounts of the British rule in India in its political, economic and social aspects.

BEYOND THE WHITE PAPER. By Philip Cox. London: Allen and Unwin, 1934, 152 p. 3/6.

A critical examination of the evidence presented to the Joint Committee on Indian Constitutional Reform.

AUX INDES AVEC GANDHI. By Edmond Privat. Paris: Attinger, 1934, 280 p. Fr. 18.

Indian life and the activities of the Mahatma as seen by a French journalist who accompanied him on his journeys in 1932.

INDIA'S SOCIAL HERITAGE. By L. S. S. O'Malley. New York: Oxford University Press, 1934, 194 p. $2.00.

A dispassionate survey of social conditions in India, by one long resident in the country.

THE LIVING INDIA. By Sir George MacMunn. London: Bell, 1934, 330 p. 15/.

India past and present in a rather breathless, though well-informed survey.

INDIA'S FOREIGN TRADE SINCE 1870. By Parimal Ray. London: Routledge, 1934, 300 p. 12/6.

A systematic treatment, with some discussion of the relations of trade and exchange.

A FOREIGNER LOOKS AT INDIA. By P. Staal. London: Cape, 1934, 252 p. 7/6.

An appreciative account of British rule, by a former Dutch consul-general who holds the representative system and reform to be a great blunder.

BRITISH OPIUM POLICY IN CHINA AND INDIA. By David E. Owen. New Haven: Yale University Press, 1934, 408 p. $4.00.

A much-needed scientific study of a disputed subject.

The Near East

PANISLAMISMO. By Manuel Martinez Feduchy. Madrid: Espasa, 1934, 142 p. Pes. 4.

The author deals primarily with the impact of western imperialism upon the world of Islam.

THE INDUSTRIALISATION OF THE NEAR EAST. By Kurt Grunwald. Tel Aviv: Palestine Economics Association, 1934, 139 p.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A mass of factual material on the economic situation in Egypt, Palestine, Syria and Iraq, by a competent student.

KEMAL PASCHA. By Friedrich Rössler. Berlin: Kittler, 1934, 122 p. M. 4.
A brief biographical sketch, by one of Kemal's admirers.

PALESTINE, THE LAST TWO THOUSAND YEARS. By Jacob de Haas. New York: Macmillan, 1934, 550 p. $3.50.
An interesting survey not of Jewish history, but of the history of Palestine, by an active Zionist.

CETTE ANNÉE À JÉRUSALEM. By Emile Schreiber. Paris: Plon, 1934.
An excellent survey of the present status of the Jewish experiment.

PILGRIMAGE TO MECCA. By Lady Evelyn Cobbold. London: Murray, 1934, 260 p. 10/6.
The author is a convert to Islam. She narrates her pilgrimage, made in a Ford, and throws in some confused history and theology.

Africa

EGYPT SINCE CROMER. v. II. By Lord Lloyd. New York: Macmillan, 1934, 426 p. $7.50.
This second and concluding volume of Lord Lloyd's history of modern Egypt deals with the period of his own high-commissionership and contains much of interest regarding the Anglo-Egyptian treaty negotiations and the influence of the Nationalist Party.

AFRICA FROM PORT TO PORT. By May Mott-Smith. London: Hutchinson, 1934, 438 p. 18/.
An illustrated travel book, instructive and amusing.

LA VÉRITÉ SUR LE CAMEROUN. By Raymond Susset. Paris: Nouvelle Revue Critique, 1934, Fr. 12.
A clear and pointed account of conditions in Central Africa, with suggestions for reform, by the secretary of the colonial commission in the French Chamber of Deputies.

KENYA TO-DAY. By Nora K. Strange. London: S. Paul, 1934, 288 p. 18/.
Gossipy and somewhat over-dramatized.

The Far East

ECONOMIC HANDBOOK OF THE PACIFIC AREA. Edited by Frederick V. Field. New York: Doubleday, 1934, 649 p. $5.00.
A painstaking compilation of statistical information based mainly on the yearbooks of the several countries treated. The nations covered are intended to comprise the Pacific area, but they have been selected arbitrarily. The U.S.S.R. and the United States are included: Mexico and the Central and South American countries bordering on the Pacific are excluded. Again, shipping tables for the United States do not segregate Atlantic and Pacific commerce. Generalizations based on the facts presented, therefore, cannot be considered very significant. However, the volume contains much that will be useful to those interested in the particular area of the North Pacific and who do not possess the many reference books on which it is based.

COMMUNICATIONS IN THE FAR EAST. By Frederick Fellner. London: King, 1934, 370 p. 15/.
A factual study of communications, especially in Japan and China.

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ACHTUNG! ASIEN MARSCHIERT. By R. Strunk and M. Rikli. Berlin: Drei Masken, 1934, 221 p. M. 4.80.
A somewhat sensational account of observations in the Far East.

L'ÉCONOMIE INDOCHINOISE ET LA GRANDE CRISE UNIVERSELLE. By André Touzet. Paris: Girard, 1934, 426 p. Fr. 30.
A thorough study of the agricultural, industrial and commercial situation in Indo-China, by a former governor.

THE CHINESE RENAISSANCE. By Hu Shih. Chicago: Chicago University Press, 1934, 121 p. $1.50.
A series of lectures reviewing recent cultural changes in China, by an eminent Chinese professor of philosophy.

PEIPING MUNICIPALITY AND THE DIPLOMATIC QUARTER. By Robert M. Duncan. Peiping: Yenching University, 1933, 146 p.
A systematic scholarly study of the local administration.

TENTS IN MONGOLIA. By Henning Haslund. London: Kegan Paul, 1934, 366 p. 15/.
The translation from the Danish of a remarkable story of pioneering in Mongolia.

TWILIGHT IN THE FORBIDDEN CITY. By Reginald F. Johnston. New York: Appleton, 1934, 485 p. $5.00.
The author, who was tutor to the boy Emperor, gives a fascinating account of the checkered history of China since 1898 as seen from the palace. The story is continued to the time of the Emperor's ascension of the Manchukuoan throne.

TYPHOON DAYS IN JAPAN. By Robert S. Spencer. New York: Friendship Press, 1934, 190 p. $1.00.
A general account of Japan, by a missionary who spent thirty years there.

Latin America

CÓMO CAYÓ EL PRESIDENTE MACHADO. By Alberto Lamar Schweyer. Madrid: Espasa, 1934, 224 p. Pes. 5.
A volume purporting to give the inside story of Machado's fall, with reference to American diplomacy.

THE CRIMSON JESTER: ZAPATA OF MEXICO. By H. H. Dunn. New York: McBride, 1934, 304 p. $3.00.
The author, who spent much time with Zapata, pictures him as the champion of the Indian against European interests. A remarkable narrative of Mexican disorders from 1912–1918.

CON SANDINO EN NICARAGUA. By Ramón de Belausteguigoitia. Madrid: Espasa, 1934, 244 p. Pes. 5.
Adventures with Sandino during the last part of his career.

LA LECCIÓN DE AMÉRICA. By Antonio Jaén. Madrid: Rivadeneyra, 1934, 271 p. Pes. 4.
The author's impressions and experiences as Spanish Minister to Peru.

THE FOREIGN DEBT OF THE ARGENTINE REPUBLIC. By Harold E. Peters. Baltimore: Johns Hopkins Press, 1934, 186 p. $2.00.
A systematic scholarly monograph.

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SOURCE MATERIAL

By Denys P. Myers

PUBLIC DOCUMENTS OFFICIALLY PRINTED

Documents may be procured from the following: *United States:* Gov't Printing Office, Superintendent of Documents, Washington, D. C. *Great Britain:* British Library of Information, 270 Madison Ave., New York. *France:* Gerda M. Anderson, 12 Ave. Ernest Reyer, Paris XIV^e. *League of Nations, Int. Labor Office, Perm. Court of Int. Justice* and *Int. Institute of Agriculture:* World Peace Foundation, 40 Mt. Vernon St., Boston. Washington imprints are Government Printing Office and London imprints are His Majesty's Stationery Office, unless otherwise noted. Since 1928 a list of Government documents has been printed in the *Monthly List of Books Catalogued in the Library of the League of Nations.*

ARMAMENT

FURTHER Memoranda on Disarmament February 14 to April 17, 1934 [In continuation of "Miscellaneous No. 3 (1934)," Cmd. 4512]. London, 1934. 22 p. 24½ cm. (Miscellaneous No. 5 (1934), Cmd. 4559.) 4d.

FRANCE. Ministère des affaires étrangères. Les négociations relative à la réduction et la limitation des armements. Paris, Imp. nationale, 1934.

BOLIVIA AND PARAGUAY

DISPUTE between Bolivia and Paraguay. REPORT of the Chaco Commission [and Annexes]. Geneva, 1934. 58, 11 p. 33 cm. Maps in pocket. (League of Nations, C. 154. M. 64. 1934. VII. 1.)

DISPUTE between Bolivia and Paraguay. Memorandum from the BOLIVIAN Government dated February 12, 1934, and Memorandum from the Paraguayan Delegation dated March 8, 1934, both circulated at the request of the Representative of Paraguay. Geneva, 1934. 15 p. 33 cm. (League of Nations, C. 255. M. 104. 1934. VII. 5.)

DISPUTE between Bolivia and Paraguay. Communication from the PARAGUAYAN Representative. Geneva, 1934. 14 p. 33 cm. (League of Nations, C. 186. M. 75. 1934. VII. 2.)

LOS ORIGENES de la Guerra del Chaco. Memorandum presentado el 8 de marzo de 1934, por la Delegación del Paraguay a la H. Comisión Especial de la Sociedad de las Naciones. Asuncion, Imprenta Nacional, 1934. 28 p. 26½ cm. (Ministerio de Relaciones Exteriores Y Culto.)

BRITISH EMPIRE

AN ECONOMIC SURVEY of the Colonial Empire (1932). London, 1934. vi, 575 p. 33½ cm. (Colonial No. 95.) £1 5s. 0d.

CHINA

COUNCIL COMMITTEE on Technical Coöperation between the League of Nations and China. Report of the Technical Agent of the Council on His Mission in China from the date of his appointment until April 1, 1934. Geneva, 1934. 72 p. 27 cm. (League of Nations, C. 157. M. 66. 1934. G. Q. 1.)

COMMERCIAL BANKS

COMMERCIAL Banks 1925–1933. Geneva, 1934. 336 p. 27 cm. (League of Nations, 1934. II. A. 5.)

COMMERCIAL TREATIES

AGREEMENT between His Majesty's Government in the United Kingdom and the Government of the French Republic relating to Trade and Commerce with Protocols, London, June 27, 1934. London, 1934. 27 p. 24½ cm. (France No. 1 (1934), Cmd. 4632.) 6d.

EXCHANGE of Notes between His Majesty's Government in the United Kingdom and the French Government respecting Commercial Relations, London, May 8, 1934. London, 1934. 4 p. 24½ cm. (Treaty Series No. 13 (1934), Cmd. 4590.) 1d.

TEMPORARY Commercial Agreement between His Majesty's Government in the United Kingdom and the Government of the Union of Soviet Socialist Republics, London, February 16, 1934. London, 1934. 11 p. 24½ cm. (Treaty Series No. 11 (1934), Cmd. 4567.) 2d.

CUBA AND UNITED STATES

RELATIONS. Treaty between the United States of America and Cuba. Signed at Washington, May 29, 1934. Washington, 1934. 4 p. 23¼ cm. (Treaty Series No. 866.) 5 cents.

DEBTS

PAPERS Relating to the British War Debt. London, 1934. 8 p. 24½ cm. (United States No. 1 (1934), Cmd. 4609.) 2d.

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PAPERS Relating to the British War Debt (In continuation of "United States No. 1 (1934)," Cmd. 4609). London, 1934. 4 p. 23¼ cm. (United States No. 2 (1934), Cmd. 4627.) 1d.

Notes of the United States relative to the payments due June 15, 1934, were published currently in Department of State, *Press Releases*.

ANGLO-GERMAN Transfer Agreement together with an Exchange of Letters between the Representatives of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the German Reich. London, 1934. 6 p. 24½ cm. (Germany No. 2 (1934), Cmd. 4640.) 1d.

LAS DEUDAS Exteriores. Principios Aplicables a Su Revision y Pago. Contribución de México al estudio del tema propuesto como adición a la Agenda de la 7ª Conferencia Internacional Americana. México, Imprenta de la Secretaría de Relaciones Exteriores, 1934. 47 p. 23¼ cm. (Del Mexico Actual.-Num. 16. Luis Sanchez Ponton.)

PAPERS respecting the German Transfer Moratorium. London, 1934. 14 p. 23¼ cm. (Germany No. 1 (1934), Cmd. 4620.) 3d.

DUMPING

ANTIDUMPING Legislation and Other Import Regulations in the United States and Foreign Countries. Report prepared for the Federal Trade Commission by the Export Trade Section of the Commission Relative to Antidumping Legislation and Other Import Regulations in the United States and Foreign Countries. Presented by Mr. Dill. Washington, 1934. vii. 100 p. 23¼ cm. (S. Doc. 112, 73d Cong., 2d sess.)

FORCES, LANDING

RIGHT to Protect Citizens in Foreign Countries by Landing Forces. Memorandum of the Solicitor for the Department of State, October 5, 1912. Third Revised Edition with Supplemental Appendix up to 2933. Washington, 1934. viii, 130 p. 23¼ cm. (The Department of State, Publication No. 538.) 10 cents.

HUNGARY AND JUGOSLAVIA

INCIDENTS Which Have Occurred on the Frontier between Hungary and Yugoslavia. Communication from the Hungarian Government. Geneva, 1934. 33 p. 33 cm. (League of Nations, C. 190. M. 79. 1934. VII. 3.)

——— Communication from the Yugoslav Government. Geneva, 1934. 25 p. 33 cm. (League of Nations, C. 239. M. 99. 2934. VII. 4.)

INTELLECTUAL COÖPERATION

ART POPULAIRE et Loisirs Ouvriers. Enquête Faite à la Demande du Bureau International du Travail. Paris, 1934. 326 p. 22½ cm. (League of Nations, Institut International de Coopération Intellectuelle, Dossiers de la Coopération Intellectuelle.)

L'AVENIR de L'Esprit Européen. Paris [1934]. iv. p. 69–128. 22½ cm. (League of Nations, Coopération Intellectuelle, 38.)

LE CINÉMATOGRAPHE dans la Vie Internationale. Paris [1934]. ii, p. 129–181. 22½ cm. (League of Nations, Coopération Intellectuelle, 39.)

ENTRETIENS. L'Avenir de L'Esprit Européen. . . . Paris, 1934. 306 p. 22¼ cm. (League of Nations, Institut International de Coopération Intellectuelle.)

INTELLECTUAL COÖPERATION. Monthly Bulletin. Vol. II, No. 1. Paris, 1934. 23½ cm. (Bulletin of the League of Nations, Intellectual Coöperation Organization.)

Succeeds *Information Bulletin*, Vol. I, Nos. 1–16.

INTERNATIONAL Institute of Intellectual Coöperation. Paris, 1934. 294 p. 18 cm.

A review of Intellectual Coöperation during the year 1933.

A RECORD of a Second Study Conference on The State and Economic Life held in London from May 29 to June 2, 1933, and organised by the International Institute of Intellectual Cooperation in collaboration with the British Coördinating Committee for International Studies. Paris, 1934. xviii, 422 p. 22½ cm. (League of Nations, Sixth International Studies Conference.)

SCIENTIFIC MUSEUMS. Monthly Informations. No. 1. Paris, 1933. 23 cm. (League of Nations, Institut International de Coopération Intellectuelle.)

INTERNATIONAL LABOR ORGANIZATION

[Congress authorized the President to accept membership for the United States in this Organization by Public Resolution No. 43, approved June 19, 1934.]

Conference

INTERNATIONAL Labour Conference. Eighteenth Session, Geneva, 1934. Report of the Director. Geneva, 1934. 96 p. 24 cm.

——— Appendix. Tables Showing the Situation of States Members in Respect of the Conventions and Recommendations Adopted by the International Labour Conference. Geneva, 1934. 46 p. 31½ cm.

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——— Summary of Annual Reports Under Article 408. Geneva, 1934. 233 p. 32½ cm.

METHODS of Providing Rest and Alternation of Shifts in Automatic Sheet-Glass Works (Supplementary Report). Third Item on the Agenda. Geneva, 1934. 9 p. 24¼ cm. (International Labour Conference. Eighteenth Session, Geneva, 1934. Report III (Supplement), Second Discussion.)

REDUCTION of Hours of Work (Supplementary Report). First Item on the Agenda. Geneva, 1934. 41 p. 23½ cm. (International Labour Conference. Eighteenth Session, Geneva, 1934, Report I (Supplement).)

——— (Second Supplementary Report). First Item on the Agenda. Geneva, 1934. 43 p. 23½ cm. (International Labour Conference. Eighteenth Session, Geneva, 1934, Report I (Second Supplement), Second Discussion.)

INTERNATIONAL Labour Conference. Eighteenth Session to be held in June 1934. Reply of H. M. Government in the United Kingdom to the Questionnaire on the subject of the Reduction of Hours of Work. London, 1934. 12 p. 24½ cm. (Cmd. 4584.) 2d.

UNEMPLOYMENT Insurance and Various Forms of Relief for the Unemployed. Second Item on the Agenda. Geneva, 1934. 187 p. 24½ cm. (International Labour Conference. Eighteenth Session, Geneva, 1934, Report II.)

——— (Supplementary Report). Second Item on the Agenda. Geneva, 1934. 31 p. 24½ cm. (International Labour Conference. Eighteenth Session, Geneva, 1934, Report II (Supplement), Second Discussion.)

——— (Second Supplementary Report). Second Item on the Agenda. Geneva, 1934. 11 p. 24 cm. (International Labour Conference. Eighteenth Session, Geneva, 1934, Report II (Second Supplement), Second Discussion.)

WORKMEN'S Compensation for Occupational Diseases. Partial Revision of the Convention Concerning Workmen's Compensation for Occupational Diseases (Supplementary Report). Fifth Item on the Agenda. Geneva, 1934. 22 p. 24 cm. (International Labour Conference. Eighteenth Session, Geneva, 1934, Report V (Supplement).)

DOCUMENTS

CONCILIATION and ARBITRATION in Industrial Disputes. Geneva, 1933. xv, 696 p. 24½ cm. (Studies and Reports, Series A, No. 34.)

The I. L. O. YEAR-BOOK 1933. Fourth year of issue. Geneva, 1934. viii, 560 p. charts. 24 cm. (International Labour Office.) $3.00.

INTERNATIONAL SURVEY of Legal Decisions on Labour Law 1932 (Eighth Year). Geneva, 1934. liii, 387 p. 24 cm. (International Labour Office.) $2.00.

GOVERNING BODY

MINUTES of the 64th Session of the Governing Body of the International Labour Office. Geneva, October 1933. Geneva, 199 double p. 32 cm.

IRAQ — MINORITIES

CORRESPONDENCE Relating to Assyrian Settlement, from July 13, 1932, to August 5, 1933. Baghdad, Government Press. 2 parts.

LEAGUE OF NATIONS

REPORT on the Work of the League since the Fourteenth Session of the Assembly. Part I. Geneva, 1934. 108 p. 33 cm. (League of Nations, A. 6. 1934. G. Q. 3.)

SECRETARIAT and Special Organisations. International Labour Organisation, Permanent Court of International Justice. Audited ACCOUNTS for the Fifteenth Financial Period (1933). Geneva, 1934. 132 p. 33 cm. (League of Nations, A. 3. 1934. X. 1.)

LEAGUE LOANS COMMITTEE

LEAGUE LOANS Committee (London). Second Annual Report. London (Stanley Beaumont Chamberlain), 1934. 53 p. 33½ cm. 5s.

The offices of the Committee are at 3 Bank Buildings, Princes Street, London, E. C. 2, England.

Financial Position of HUNGARY in the First Quarter of 1934. Tenth Quarterly Report by Mr. Royall Tyler, the Representative in Hungary of the Financial Committee. Geneva, 1934. 24 p. 33 cm. (League of Nations, C. 142. M. 58. 1934. II. A. 9.)

Financial Position of AUSTRIA in the First Quarter of 1934. Tenth Quarterly Report by M. Rost van Tonningen, the Representative in Austria of the League of Nations. Geneva, 1934. 16 p. 33 cm. (League of Nations, C. 137. M. 55. 1934. II. A. 8.)

Trentième Rapport du Commissaire de la Société des Nations en BULGARIE (Période Novembre 1933–Mars 1934). Geneva, 1934. 22 p. 33 cm. (League of Nations, C. 136. M. 54. 1934. II. A. 7.)

LIBERIA

PAPERS Concerning Affairs in Liberia December 1930–May 1934. London, 1934. 98 p. 24½ cm. (Liberia No. 1 (1934), Cmd. 4614.) 1s. 6d.

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MANCHURIA

INFORMATION Bulletins Nos. 51–120. April 15, 1933, to February 15, 1934. Hsinking, Bureau of Information and Publicity Foreign Office, 1934. 1, 3, 233 p. 25½ cm. (Publications of the Department of Foreign Affairs Manchoukuo Government.)

MEXICO AND UNITED STATES

RECTIFICATION of the Rio Grande. Convention between the United States of America and Mexico. Signed at Mexico City, February 1, 1933. And Exchanges of Notes. Washington, 1934. 56 p., maps, charts. 23¼ cm. (Treaty Series No. 864.) 20 cents.

PAN AMERICAN CONFERENCE

REPORT on the Steps Taken by the Pan American Union in Fulfillment of the Conventions and Resolutions adopted at the Seventh International Conference of American States (Montevideo, December 3–26, 1933). Submitted to the Governing Board of the Pan American Union by the Director General at a Special Session held on Wednesday, June 27, 1934. Washington, Pan American Union [1934]. 2, 27 p. 27¼ cm.

CUSTOMS Procedure, Port Formalities, and Consular Procedure. Memorandum Prepared with reference to a Resolution of the Seventh International Conference of American States. Washington, Pan American Union, 1934. 37 p. 27½ cm.

RUBBER

AGREEMENT between the Governments of France, the United Kingdom, India, the Netherlands and Siam to Regulate Production and Export of Rubber, London, May 7, 1934. London, 1934. 14 p. 24½ cm. (Treaty Series No. 12 (1934), Cmd. 4583.) 3d.

SECURITIES MARKETS

STOCK EXCHANGE Regulation. Hearing before the Committee on Interstate and Foreign Commerce, House of Representatives Seventy-Third Congress, Second Session on H. R. 7852 to provide for the registration of national securities exchanges operating in interstate and foreign commerce and through the mails and to prevent inequitable and unfair practices on such exchanges, and for other purposes. H. R. 8720 to provide for the regulation of national securities exchanges and of over-counter markets operating in interstate and foreign commerce or through the mails, and to prevent inequitable and unfair practices thereon, and for other purposes. February 14 to March 24, 1934. Washington, 1934. iv, 941 p. 24½ cm.

STATISTICS

COMMITTEE of Statistical Experts. Report to the Council on the Work of the Third Session (Held in London from April 12–14, 1934). Geneva, 1934. 32 p. 33 cm. (League of Nations, C. 152. M. 63. 1934. II. A. 10.)

The reports of this committee relate to the international coördination of trade statistics.

REVIEW of World Trade 1933. Geneva, 1934. 82 p. 27 cm. (League of Nations, 1934. II. A. 12.)

STATISTICAL YEAR-BOOK of the League of Nations. Geneva, 1934. 299 p. 24½ cm. (League of Nations, 1934. II. A. 6.)

YEMEN

TREATY of Friendship and Mutual Coöperation between His Majesty in respect of the United Kingdom and of India and the King of the Yemen (With Exchange of Notes), Sana, February 11, 1934. London, 1934. 5 p. 24½ cm. (Yemen No. 1 (1934), Cmd. 4630.) 1d.

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